THE STATE AND ECONOMIC LIFE

By the same Author

AGRICULTURAL CREDIT

THE FARMER AND HIS DEBT

INDIGENOUS BANKING AND ITS PROBLEMS

THE STATE AND ECONOMIC LIFE

Being a Study of the methods of State Intervention in Economic Life in the Leading Countries of the world with special reference to the Problem facing India.

BY

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TO

The Right Hon'ble Sir AKBAR HYDARI

(NAWAB HYDER NAWAZ JUNG BAHADUR)

P. C., LL. D., D. C. L.

CHANCELLOR, OSMANIA UNIVERSITY,

AND PRIME MINISTER OF

HYDERABAD STATE.

FOREWORD

BY VERA ANSTEY, D. SC. (ECON.)

Sir Ernest Cassel Lecturer in Commerce, University of London.

Economic Planning, of one type or another, and of more or less completeness, is the order of the day throughout the world, and there are few topics of more vital importance to India at the present time.

Social, including economic, policy is in the melting-pot in India. The new Provincial Governments are inaugurating their programmes, and have adopted ideals differing profoundly, in many respects, from those which have inspired policy in the past. It is, therefore, of the utmost importance that clear ideas should prevail as to the most economic methods of attaining those ideals. If confused or inconsistent policies are pursued, the experiment may cause widespread dislocation and maladjustment, and prove disastrously expensive.

Mr. Qureshi is admirably equipped to treat the subject in a broad, comparative manner. He has studied his subject at first hand not only in his own country (first as a student, recently as a member of the Agricultural Credit Department of the Reserve Bank, and at present as head of the Economics Department of the Osmania University College, Hyderabad-Deccan), but also in England, the United States and Ireland. In addition he has made extensive tours in the Dominions. He is a young man of unflagging energy and balanced judgment, who always makes the most of his opportunities for personal observation and for consultation with experts. I can, therefore, confidently recommend serious consideration of his views to all concerned.

VERA ANSTEY

February 1938.

PREFACE

THE subject, which is discussed in the following pages is of a highly controversial nature, and a good deal of misunderstanding is bound to arise if the motives of the author are not taken into consideration. The chief motive which has impelled me to undertake this work, is my desire to bring to the notice of my countrymen the changes which the post-war European economy is undergoing, how far the policy of economic nationalism has been fostered, and what might be its effects on our exports. I have also described the measures taken in Europe and the United States whereby governments have directed or controlled the economic activities of the people, and the results that have followed. In India it is a growing belief that the State possesses some magic, and immediately it steps in to undertake the direction and control of the economic resources of the country, it will be able to remove the appalling poverty of our country and effect the millennium. A good deal of disillusionment and dissatisfaction are bound to come to those who have pinned their faith on this magic power of the state. The mere passing of a law, state intervention, or as a matter of fact, even the undertaking of certain enterprises by the state itself will not solve our problems, unless special efforts are made to transform the character of the people and unless their intelligence is considerably raised by education and other such means. I do not believe in aggressive individualism, but I do maintain that we shall lose more and gain less by killing private initiative. India needs greater general education, both liberal and industrial, and greater facilities for research work. Our industries stand more in need of better trained labour, better internal organisation and scientific management, and better facilities for marketing, than just an artificial

protection from foreign competition. What is popularly now called "planning" is nothing but rationalisation and scientific management and I am a firm believer in that. I think this much is enough to clarify my position.

I began the present work in 1934 while I was a member of the Department of Economics and Political Science in the Trinity College, Dublin, and all credit for this work is due to Mr. Joseph Johnston, Fellow and Tutor of the College, through whose initiation, inspiration and encouragement I was introduced to this subject. I have greatly benefited by his advice and criticism. I am deeply indebted also to Dr. Vera Anstey, not only for contributing a Foreword to this work, but for the very keen interest which she has been constantly taking in my work since 1932. In spite of other heavy duties she was kind enough to read the entire MS. in its preliminary form and I have derived an immense amount of help from her criticism, suggestions and advice. My thanks are due to Dr. M. D. Tasser, Principal, M.A.O. College, Amritsar, and Mrs. Tasser for many useful suggestions, and to Dr. E. D. Lucas of the Forman Christian College, Lahore, for many useful suggestions and criticisms. I am also very much indebted to Professor F. J. A. Harding of the Osmania University, for having read the proofs, and to my colleague Mr. Abdul Qadir, B.Sc. (Economics), London, for preparing the Index.

ANWAR IQBAL QURESHI.

OSMANIA UNIVERSITY,
HYDERABAD-DECCAN
February 1938

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CHAPTER I

GOVERNMENT ECONOMICS

AN apology must be offered for the title of this chapter. Government Economics: what idea does it convey? I would ask what idea did the catch-word of the nineteenth century—laissez-faire—convey? The spirit of the nineteenth century—generally speaking—was to "let things alone." It was believed that enlightened self-interest would lead to the welfare of the community as a whole. It was not a mere passive philosophy. It was a measure of active revolt against the mercantile policies. The interference of governments and the idea of a visible favourable balance of trade and love of precious metals during the Mercantilistic régime had led to the disruption of international trade, and individual initiative was undermined. It is interesting to note how history repeats itself. We find to-day that the policies of Mercantilism which were discredited by the advocates of laissez-faire, are now being brought into increasing prominence. The causes of the present depression and chaotic state of affairs are attributed to the policy of "let things alone," and as a remedy, it is emphatically declared that things should not be let alone. On the contrary, we should embark on a programme of planned economy under the direction of the government. According to President Roosevelt "the evidences of change in our social order are so numerous, so tragic in some of their consequences, and so surely indicative of the necessity of sanity in all our planning for the future that there can be no argument with regard to the patriotic and self-sacrificing attitude all men should take who have been given the duty of government, of

legislating and of administering the business of the people."[1] Is the government capable of administering the business of the people? The answer to this question will be given in the following pages where we shall discuss the functions which governments have performed during recent years to remove the defects of the existing social system. The policy adopted by governments in their new capacity as guardians of planned economy has been styled in the present essay "Government Economics." This policy is the opposite of laissez-faire. The main idea underlying it is that it is a great sin to let things alone. Instead of letting things alone, governments should step in. The policy of stepping in has given birth to the new system of "Government Economics", the predominant features of which are quotas, subsidies, bounties, exchange restrictions, competitive depreciation of currencies, exchange control, devaluation of currencies, import restrictions, and several other measures which we shall discuss in the following pages. The reaction to this "Government Economics" is far from satisfactory. The world has been divided into rigid watertight compartments; international trade has been strangled; and political corruption has resulted in the rise of dictatorships not so common before the introduction of this system. In this connection the remarks of President Hoover are worth quoting. He says "modern despotism, in every case, has achieved its purpose by fanning the fires of Nationalism. To inflame hate, and to stir the sacred emotion of patriotism as a drug to liberty, is a favourable device of those who seek power. Their effect is to increase enormously the dangers of conflict."[2] We shall not discuss the political problems which the system of Government Economics has brought in its train, but shall confine ourselves only to its economic aspects.

It is advocated that the State must set itself to reform the present haphazard economic system. We must ask: is the government capable of doing the task

(1) Looking Forward. Roosevelt Franklin D. page 39.
(2) Hoover. Herbert. The Challenge to Liberty. page 183.

which it is asking its nationals to entrust to it? "If the government has not the capacity, through regulation to accomplish the easier task of an Empire, surely it can't direct or run the system itself. Men chosen by election for oratorial triumphs and selected by bureaucracy will on an average be no more honest, far less competent and much more oppressive to liberty than merchants, bankers and industrialists operating under the law."[1] The economic structure of present day society is so intricate and complex that no ready-made solution can be given for the ills of the system. When we are dealing with a system which is a complicated one, we must expect to face intricate problems in dealing with it. "Administrators are realising that the conduct of business is always an intricate affair, and there is no such thing as one pattern for all industry. Businesses are made in their own models, and even in the manufacture of brass-headed nails, no two factories turning out these articles are alike in conduct and conditions. In attempting to remedy defects in the minimum wage paid and the length of hours worked in a factory, many other defects might be created which are beyond remedy if the business is to be kept going."[2] The fundamental defect in Government Economics and the policy of national planning is that modern countries are far from isolated and the repercussions of one country do have definite effects on other countries.[3] It is deplorable to note that in spite of the introduction of this complicated system of Government Economics and the increasing interference of various governments to regulate the prices in their home markets, they have failed badly, and all their efforts have not been able to cure chronic unemployment. "Despite the recovery so far achieved, unemployment in 1934 was still more than double that in 1929. If the absorption of the unemployed should continue during the current year at the same rate as in 1934, the amount of unemployment in the

(1) Neillson, Francis. Control from the Top. p. XI.
(2) Neillson, op. cit. page XI.
(3) See Robbins, L. Economic Planning and International Order.

world, with production back to the 1929 level, would still be 75% greater than it was then. Yet the conclusion is irresistible that, until significant expansion of international trade is achieved, there will remain, despite substantial recoveries of national production, a 'hard core of unemployment' in practically every industrial country."[1]

As long as economic forces are not left free to adjust themselves and to find a natural equilibrium between supply and demand, there can be no permanent world prosperity. If by artificial stimulants we succeed in restoring life to the dying corpse of world economy, the result will be mere temporary easement. We shall be only delaying the final collapse, and the aftermath will be still worse. The fundamental defect in various measures of Government Economics is that its advocates seldom realise the full significance of their own policies and especially the repercussions which such policies have on world economy.

The world during this depression period has witnessed amazing jugglery on the part of politicians in raising prices by many novel measures which we are going to describe in the following pages. But a pertinent question arises. Do they understand what they are doing? In this connection I am tempted to quote Sir William Beveridge. "Price is like a thermometer, and if you combine it with competition you get something like a thermostat—a more or less automatic regulator of the economic mechanism, encouraging production of things for which there is an effective demand, discouraging production of others, serving the comfort and convenience of consumers. But if one is to use it in that way, it is essential to give the regulator a chance. An economist's chief complaint against the world to-day is that the world at large is playing with prices and not allowing their regulator to function. The Americans have a story about a man who went into a room and looked at the thermometer which was somewhere well below freezing-

(1) World Economic Survey, 1934-35. League of Nations, page 11.

point. "Gee," he said, "it's cold," and put his thumb on the bulb and sent the mercury up to summer heat. Then he took off his coat and died of pneumonia. I sometimes wonder whether some of the people we think pushing up prices is a royal road to prosperity know more about the economic system than that man did about thermometers."[1] It will be interesting in this connection to look at the pages of past history, and see what has been done and what lessons we can learn from it.

Government Economics in the past

The meddling of Governments in economic matters, which in this essay has been christened "Government Economics," in spite of its apparent newness is no new creation of the modern politician. These measures have been tried in the past—even the distant past before the dawn of history from which we shall give some examples and see what we can learn from them.

Lessons from Ancient China

The history of China gives us examples of the formulastic rule of the bureaucracy in controlling prices and in planning the economic resources of the country. During the reign of the famous Chinese reformer Confucius (551 B.C. to 479 B.C.) feudalism thrived in China. The Chinese Emperors of this period tried directly to control the life and work of every person in the kingdom. The people were regimented under strict supervision and prices were controlled by the state. An elaborate system of studying costs was introduced to fix prices. Supervisors and auditors were appointed to help the government in this matter and an organisation was set up to buy up the goods as the people could not sell except to the state. The government of the day was confronted with serious difficulties in enforcing these measures. It was not easy to control the small decentralised business units. In order to enforce this law an intricate police and spy system had to be

(1) Planning under Socialism—by Sir William H. Beveridge. (Longmans)—1936.

wonderful

introduced. The achievement can be briefly described as "a benefit to special privileged persons and great waste."[1]

Lessons from Ancient Rome

Of all the dictators that ancient Rome witnessed, Diocletian was one of the most famed and powerful. He ruled from A.D. 284 to A.D. 305. He is said to be the pioneer of economic planning. The Roman Empire was passing through a very critical period. In the East, it was harassed by Persians, and in the West, Teutons and other barbarians threatened it. As a result of these disturbances, prices and other economic relationships became disturbed and chaotic. This was the task to which Diocletian addressed himself. He wanted to adjust the economic resources of the country. Owing to disturbances, the prices were rising. So he issued a decree fixing the maximum price which shopkeepers were authorised to charge for food products and other necessaries of life, such as beef, grain, eggs, clothing, etc. In this decree eight hundred articles were included and the death penalty was prescribed for those who sold at prices higher than those fixed by the decree. The results of this price fixing and economic planning have been described as follows: "Thereupon, for the veriest trifles much blood was shed, and out of fear nothing was offered for sale and the scarcity grew much worse, until, after the death of many persons, the law was repealed from necessity."[2]

Lessons from Revolutionary France

Coming nearer, the French Revolution affords more interesting material for us to digest. During this revolutionary period, the economic forces had got out of gear and with violent political upheavals great vicissitudes were witnessed in the economic sphere. The dictators of this time also tried to set up maximum prices. Their idea was that by doing so they would be able to help the masses who were compelled to pay an exorbitant

(1) Chen Huan-Chang, "The Economic Principles of Confucius and His School," Studies in History, Economics and Public Law, Columbia University, Vol. XLIV (1911) pp. 576-7.

(2) Abbot, Frank F. The Common People of Ancient Rome. p. 177.

price for the necessaries of life. As a result of this law, people rushed to the shops to buy their requirements. In the beginning, when the enforcement was at its height and the supervision very strict, the people did receive some benefit, but after some time when the existing supplies began to diminish and the supervision became lax, matters became different. Contraband trade came into existence and shopkeepers refused to sell except to those who were prepared to pay even higher prices than those which existed before the passing of this law. The following description of the working of this measure is so vivid that we take the liberty of quoting it at some length.

"These maximum price laws did not help the common people as it was supposed they would. On the contrary, they tended to aggravate the scarcity, particularly of meat, wood, charcoal, pit-coal, and candles. In the autumn of 1794, as the days grew shorter, long lines of men and women would stand in front of the shops where candles were sold. Sometimes the women would fight for preference, because if they could not obtain a supply of candles their husbands would have to stop work too early. Similarly crowds gathered at the quays where wood and coal were sold. It is reported that often a thousand persons waited all night for the gates to open and fifty or sixty soldiers were required to keep them in line. Meat was difficult to obtain also. On one occasion it is said that one hundred and fifty women had crowded to a butcher's door at four o'clock in the morning. The common people began to feel that they would rather pay twenty or thirty sous and have what they wanted than to pay fourteen, the maximum price, and get nothing. To clear the path in front of marketing stalls, gendarmes would ride their horses through the crowd or great porters would use their shoulders in a flying wedge. Women would stand in line for hours shivering with the cold, only to be told when their turn came that nothing was left."[1]

(1) Economic Planning and the Tariff—by James Gerald Smith. Princeton University Press. 1934. pp. 21-22.

This description needs no comment. The conclusion is that we may be able to keep the laws of supply and demand in abeyance for some time but it is not possible to do so for a very long time. The French authorities realised to their great dismay that the game of price fixing could not be enforced for a very long time. The issuing of circulars, publishing of orders, and creation of supervising bureaux could not supply the people with bread and other necessaries of life.

Lessons from Spain

During the heyday of its glory the Spanish Empire had gathered a tremendous amount of gold. This huge accumulation of gold was mostly due to the daring and pioneering spirit of the Spaniards who not only ransacked and plundered the world but also did great pioneering work in colonising the uninhabitated parts of the earth which brought glory and wealth to the mother country. Other countries who saw the glory of Spain did not realise the factors that had contributed to the wealth of Spain, *i.e.*, the colonising spirit of the Spaniards and the wealth produced by that spirit, and Spain's peculiar position as a clearing and trading centre of the world; but they were dazzled by the vast hoards of gold in Spain and committed the common fallacy that if they could amass gold like Spain they would be also glorious like it. It was under this idea that the Mercantilistic policies gained their force and innumerable trade restrictions were introduced in various countries of the world to increase their visible balance of trade, to prohibit imports, and to increase their gold supplies. In order to achieve this ideal, special privileges were allowed to persons who were prepared to export the products of the country which in return brought gold. Laws were passed to prevent the imports of various commodities, and various kinds of bounties and subsidies were given for exports. Foreigners had to meet their obligations not in goods but in gold. We need not go into the details of this policy. The world experienced the same sort of stagnation as we experience now. Britain was the first

to realise this mistake and the publication of " The Wealth of Nations" by Adam Smith served to give the stimulus needed to shake and remove these barriers. About the futility of increasing gold and silver supplies he remarks: "The importation of gold and silver is not the principal, much less the sole benefit which a nation derives from its foreign trade. Between whatever places foreign trade is carried on, they all of them derive two distinct benefits from it. It carries out the surplus part of the produce of their land and labour for which there is no demand among them, and brings back in return for it something else for which there is a demand. It gives a value to their superfluities, by exchanging them for something else, which may satisfy a part of their wants, and increase their enjoyments. It is not by the importation of gold and silver that the discovery of America has enriched Europe. . . . The discovery of America . . . by opening a new and inexhaustible market to all the commodities of Europe gave occasion to new divisions of labour and improvements of art, which, in the narrow circle of the ancient commerce, could never have taken place for want of a market to take off the greater part of their products."

It is rather unfortunate that all these forceful lessons of history have been forgotten and all the old discarded ideas are again gaining prominence. The mistaken idea that we are going to enter into a new era by replacing the old haphazard system of private enterprise by Government Economics appears quite futile when we study what has been done in the past and what results have been achieved. The examples of the past have been quoted just to show that there is nothing new upon the surface of the earth and that all this utopia which we are building will soon tumble down. In the following pages, numerous illustrations will be given to show how this restrictionistic policy is working and it is well for us in India who are going to tread a new path to ask ourselves how far we can gain by remembering the lessons

of the past. Even we need not go to any distant past. The history of the past few years of depression in which various novel measures have been tried illustrates the folly of this policy. Before we describe these measures we shall study some aspects of economic planning and see if it can be of some help to us in India. But before we go into the details of planning we shall study some aspects of state intervention in economic life. The increasing intervention of the state in the economic life of the people has created very serious problems and it is time that we should clear our ideas in India about this important problem.

State Intervention in Economic Life

To-day in India we have entered into a new era, and the advent of the new constitutional regime (whatever its defects and limitations may be) has imposed increasing responsibilities on the heads of provincial leaders who have been entrusted with navigating the ship of provincial autonomy. We are living in most stirring and fast moving times, and the political horizon is disturbed. However immune we may be from these dangers, no far-sighted pilot can afford to ignore any disturbing signs. Even at the Centre we have to share a much heavier responsibility than we have now, and it requires more than extraordinary foresight and courage honourably to discharge that responsibility. The old ideas and conception of things will have to be changed in the new régime, because a fundamental change (however slow we may be to recognise it frankly) has taken place in the very structure of things, which I am afraid even people who live fairly high up, and who should be able to see things more clearly, are not in many cases able to discern. This foremost and fundamental change has taken place in the structure of the State and consequently in its true meaning. Previously the State was a foreign body or to be more exact it was not an indigenous institution as it was not fully responsible to its subjects for its actions. It was a foreign bureaucracy which was ruling the country and was responsible for its

action not to the people of the country but to "somebody else." I have been particular in making this difference for no other motive than that we should be able to realise the exact significance of the change and its consequences. I will give a concrete instance to explain my point. For instance, in India there are many things which are undertaken by the State. We have State-owned railways, post and telegraph offices, canals, hydro-electric works and so on. Now most of these, in normal times, have been earning a fairly high profit which is not the case with many state-owned projects in other parts of the world. Why? The explanation will shortly be given.

Before I visited Australia and New Zealand (1933), the only example of the participation of the state in Public Works that I had seen was in India, and I was an enthusiastic supporter of increasing participation of the State in economic life. Our canal system in the Punjab is an example which should be a source of great pride to any state in the world. Not only has that brought about a revolutionary change in the economic life of the province, turned deserts into garden cities, and made the canal colonies of the Punjab the biggest granaries of the East, but they have also earned a very high dividend on the capital invested in them. Our state railways before the depression were earning fairly good dividends. But what did I find in Australia and how was I disillusioned? I found that most of the projects managed by the State were running at a deficit and their management was far from satisfactory. What was the cause of this? Why in India were the State-owned and managed businesses fairly efficient and running at a profit, and why in Australia was the case otherwise? It was here that for the first time I learnt the difference between the several meanings of State control and consequently the difference between the State-owned works in India and Australia. In India, as I have already explained, the State was not fully responsible to its people, and consequently the people could not successfully interfere in the policy of the public works adopted

by the State. The business of State-owned concerns was not managed with a view to winning the applause of the man in the street, and to securing his vote, but with a view to doing the job in a businesslike manner without any fear of popular interference. But in Australia, the state was an indigenous institution. It was fully and completely responsible for its actions to its subjects who exerted a good deal of influence in moulding the policies of the state in regard to state-owned concerns. The man in the street had a definite voice, and was the master of his masters who could not dare displease him. The result was that the business was not managed on scientific lines, but with a view to earning the popular applause and the people's votes.

There are numerous instances where vested interests have exerted a good deal of influence, in Australia and elsewhere, in moulding the policy of the state to their own advantage at the expense of the rest of the nation. Fiscal autonomy was abused to foster hot-house industries in order to get votes. The same thing is likely to happen in India with the advent of new reforms when the state will no longer be a foreign body—not responsible to its people for its actions—but, in the new autonomous provinces, will be completely responsible to the voters; and the dangers of submitting to the lure of popularity are very real and positive, which we must try to avoid, learning a lesson from other countries. In the future legislatures, there is bound to be a good deal of clamour, and the State will be asked to do many things which in the ordinary course should be done by the individual himself. The plea that state enterprise has so far been successful in India as compared with other countries, and that we must go ahead no longer holds true. As I have already pointed out a government elected by popular votes is open to many dangers in carrying out a state enterprise and in managing it successfully. It is here that we should profit by the lessons of Australia and other countries and I

reproduce a quotation below to show the Australian experience.

"We in Australia are passing through a similar phase (changing point of view of public opinion towards state-owned enterprise). Years ago when we were developing state enterprise, there was much academic interest taken in our experiments from this end of the world (Europe). I believe that with our experience of 30 or 40 years in these two countries (Australia and New Zealand) their present revisionist frame of mind ought to be of an extraordinary interest to Europe at the present time, and particularly to some countries which seem to be welcoming state interference in industrial matters. In Australia more than possibly in any country of the world the state has interfered in every conceivable and possible manner."[1]

It is interesting to note that the Australian policy of state control has undergone considerable change since the depression, and it is one of the few countries of the world which has recovered from the depression by following the orthodox economic policy, which it is fashionable to discredit in these days. The economic effects of state intervention create a vicious circle and it becomes increasingly difficult to break it when the circle has developed. Here is an interesting example of it. In 1933 when I was chosen by the Universities Bureau of the British Empire (London) to visit Australia, I accepted the offer with the idea that I should be able to save a lot of money as living would be very cheap in Australia. I was strengthened in this conviction as many Australian products were selling at a fairly low price in London, and I thought that I should be able to purchase them in Australia for almost nothing. But on my arrival in Australia, I found that things were entirely different from what I had imagined or expected. Living was very dear, indeed much dearer than living in London. For the Australian apples and oranges which I used to buy for a penny in London, I had to pay two pence in Australia.

(1) Copeland D. B. Professor, Melbourne University.

In spite of its tremendous production of wheat, even bread was dearer. I asked the reason as to why things were dearer in Australia than in London, and I was told that the labour costs in Australia are higher. On enquiring why the labour costs were higher there, I was told that the cost of living was higher in Australia than in London. And why was the cost of living higher in Australia? Because the tariffs were higher. Why were the tariffs higher in Australia? Because the cost of production was higher. Why was the cost of production higher? Because the wages were higher and the tariffs were higher. This is really a very vicious circle indeed.

Similar reasons were advanced in South Africa and Canada.

In India to-day we find enthusiastic advocates of state interference and planning by the state. It is a question of very great importance to the future welfare of the country, and we must dispassionately study all the aspects of the question with the spirit of economic investigators rather than as partisans, and find out where this policy is actually going to lead us. Will it solve our economic problem? Will it increase the economic prosperity of the country and lead to general well-being? Does the state really possess a magic wand by which it can create miracles? In order to answer these questions we will have to gather some materials from foreign countries and find where it has led those countries. We are living in a closely knit economic world and the revolutionary changes that have been brought about in the means of communication and transport during the last decade have made the world into one compact block. But unfortunately the vigorous pursuit of the policy of economic nationalism which has led to the policy of closed door economy, has divided this world into various rigid watertight compartments. The harmonious economic relations with various states have been strained and international trade which is the life-blood of all nations, has been strangled, and the body-politic of the world has suffered a very serious loss. Planning has been advocated

in most quarters but instead of solving the problem of the world it has created additional difficulties. Planning in one individual state is only possible if it is entirely cut off from the world and is a self-sufficient unit not only economically but also socially and culturally; which is far from being the case. The world is much more closely inter-related than it is generally thought to be. Even self-sufficient units with little international trade cannot survive or at least cannot maintain the high standard of living to which they have been accustomed if they are entirely left to themselves. The United States can achieve self-sufficiency to a very great extent. It exports only 10% of its total production but it has felt the burden of trade barriers very seriously, even with this small percentage of its export trade. The possibility of an individual country ever reaching a stage of self-sufficiency or achieving its ideals in constant opposition to the interest of other countries is only possible if it is prepared to make enormous sacrifices and is prepared to lead a primitive life. Planning by individual states cannot help very much. "There are 60 or 70 states in the world in relation to each other. No state which wishes to plan its own parochial state can do so, unless it arranges co-ordinated plannings with some other states; otherwise if it goes its own way without a co-ordinated plan, you will get collisions with other states. There will be a war-like militarism between states. The reality is a world of states in contact with each other, which must take counsel with each other, and take account of the existence of the other states. Otherwise any attempt at parochial planning will come to grief."[1]

I think a vigorous pursuit of this policy of haphazard individualistic planning is more responsible for the troubles of the world than anything else. "What most countries suffer from is not a lack of intervention. We are passing through a crisis of interventionism. To a certain degree the overproduction of the world in the wheat and other markets, is due not to liberalism but to

(1) Professor Toynbee, A. J. State & Economic Life. page 195.

chaotic state intervention in the wrong direction. The theory of interventionism will have to devise a method of intervention which needs international co-operation, if intervention is not to increase the anarchy of the economic world. This is one of the best examples where national intervention can be regarded as a haphazard method of self-defence."[1]

It is exactly this difficulty which we should like our statesmen to avoid. It is a very alluring pitfall and there is every likelihood of their falling into it unless special precautions are taken to avoid this temptation; especially when it takes the pleasant garb of planning. Increasing stress has been laid in India on the idea that the state should embark on a broad programme of planning which is considered a panacea for all our economic ills. Planning, if it is to be really successful, requires the active intervention of the state which is contrary to the spirit of democracy for which we have been continuously striving. It is also against the spirt of capitalistic enterprise under which we are living, and there seem to be few signs of doing away with that system. Even the efforts of the "uncrowned King of India" cannot attract any sympathy from his admirers when he preaches to them to change the present system of capitalism. There is another factor which is very much overlooked or not properly emphasised; and that is that if planning is to succeed universally and result in any definite good, our present system of capitalistic enterprise must be changed and as there are no overwhelming signs of its change, the chances of any planning succeeding are very remote. We must study the circumstances and the constitutional philosophies of those countries which have advocated the increasing use of interference by the state, if we are to profit properly by their experiences and we must also determine for ourselves how far we are prepared to go. We will take the case of Germany and study the economic conditions there in order to estimate properly the value of state interference in economic life. It will also at the

(1) Dr. Wolfer's Arnold, State & Economic Life. page 260.

same time serve a useful purpose in disillusioning those people in India who expect to increase our export trade to Germany and to other such countries. But before we study the achievements of planning in individual countries we shall discuss some of the problems involved in economic planning and measures which have been introduced to control prices.

CHAPTER II

PLANNING

PLANNING has come into fashion these days. Like most other products of fashion, the public does not judge the instrinsic value of the commodity, but is carried away by prevalent emotions and sentiments. Psychology plays a more important part in moulding the conduct of human affairs than is generally thought. No amount of rational appeal is likely to have any serious effect on a mob which is being carried away under the sway of oratory or some sort of supposed feelings of patriotism. There is little truth in the general saying "What's in a name?" As a matter of fact, there is more in a name than in anything else. History gives us profound illustrations of the fact that people have continued to make sacrifices under illusions and false names. Planning unfortunately is also a false name for rigid regulation and state control. It is very difficult to give any exact definition of planning which could command universal acceptance. Different individuals are using it in a different sense. It has come into prominence since the introduction of the Five Years' Plan in Russia, where by planning is meant absolute and complete surrender of individual rights and judgment in production, distribution, exchange, and even in consumption, to the supreme will of the state, which guides the destinies of the nation on a plan prepared beforehand to which every individual must submit. You may be accustomed to eat wheat bread, but the state planning board may think that in their system of planned economy, more wheat should be exported and less consumed at home and the consumption of rye or other cereals is to be encouraged. You have then,

got to dispose of your wheat according to the instructions of the planning board, and be content to eat rye bread irrespective of whether you like it or not. This is the extreme form of planning which is carried on in Russia. There are other half-hearted definitions of planning where the state controls some forms of production, and leaves others alone. Here we shall give another definition of planning which shows the difference between the two extremes. "Planning or rationalisation implies the substitution of research, foresight and control for ignorance, guesswork and particularist chaos. Scientific management is its name when applied to industrial enterprise. It implies a continuous working process of co-ordination, of discovering the necessities of a given situation and meeting them. It means applying intelligent management as a substitute for haphazardness."[1]

The important question arises who is to be the judge of individual chaos? Certainly not the state, which is more liable to corrupt influences than those individuals who are liable to suffer the consequences of their own mistakes? Industrial experience shows that many industries managed by the state are generally less efficient than those managed by private enterprise. In this chapter we are not concerned with the advantages or disadvantages of planning, or to discuss the general theory of planning—if there is any such theory—but we shall only examine some of the principal features which are the fundamentals of controlled economy. The periodical literature of the time is full of vague articles and propaganda about the failure of the present system of private enterprise and the failure of the price machinery. One very often hears the catchwords—planning, reconstruction, rationalisation, which have become general slogans, and great stress is laid on planning.

Why do we want Planning?

It is said that economic mechanism no longer works smoothly and it is necessary to adjust it by means

(1) The New Republic. New York, Sept. 16, 1931.

of planning. But one may ask pertinently why is not economic mechanism working as smoothly as it was before the war? The advocates of planning say that this friction is due to the inability of the present competitive system to adjust itself to the changing circumstances. But the question arises as to how the circumstances have changed and who has been responsible for the change? The present depression is the result of two forces: 1. That in the post-war period political interventions have been working in restricting the economic mechanism from functioning in its broadest sense. 2. That these tendencies are mainly, if not entirely, the result of state policy. "Now there can be little doubt" writes Professor Robbins "that in the post-war period the capacity of the economic system to sustain shocks to adopt itself to a process of rapid change has been, as a result, impaired. The essence of pre-war capitalism was the free market . . . in the sense that the buying and selling of goods and the factors of production were not subject to arbitrary interference by the state or strong monopolistic control . . . . Since the pre-war period it has tended to become more and more restricted." "The cartelization of industry, the growth of the strength of the trade unions, the multiplication of state control have created an economic structure which is certainly much less capable of rapid adaptation to change than was the older, more competitive system."[1]

The elements of rigidity and instability are the outcome of the policy of state intervention. How far planning will help to lessen this rigidity and instability is a question which we shall examine now. Planning, if it is to be successful, will have to be entrusted to some central authority and this involves a high degree of centralisation. If any system of industrialism is to be successful, it is necessary that there should be scope for free adjustment and free enterprise, and the controlling authority should be able to take immediate and speedy action. Anybody who has the least experience of bureau-

(1) Robbins, Professor Lionel. The Great Depression. pages 59-61.

cratic measures of control knows how rigid and inelastic these bodies are and how much red tape is involved in doing even the most elementary business with them. The rigidity and inflexibility that are the two distinguishing features of the post-war depression period have been brought into existence by state intervention in various countries. A system of capitalistic enterprise has not failed because of any of the inherent defects in the system itself but because of the ill-conceived measures which have been adopted to set it right. Post-war economic tendencies have seriously obstructed this mechanism. "Wage rates have lost flexibility, the freedom of markets has been obstructed by cartels and monopolies frustrated by state policy, restrictions have been imposed on the exchange of goods and services between countries, individual countries have promoted control and bounty schemes—these are the tendencies and policies which have caused a temporary breakdown of the prevailing economic system." "If recovery is to be maintained and future progress assured there must be a more or less complete reversal of government regulation of enterprise. The aim of governmental policy in regard to industry must be to create a field in which the forces of enterprise and the disposal of resources are once more to be governed by the market."[1]

Those of us who always advocate state intervention in economic life must not be blind to the effects of state intervention in other countries of the world and their cumulative effect on each one of them. The world has never been free from depressions and we have seen many depressions before the present one, but none has been so long in its prolonguity and so severe in its impact. This length of period and severeness is explained by the chaotic policy of state intervention. Previous depressions were not so severe and not so long because free economic forces were led to adjust themselves. But in this depression tampering with these forces has

(1) Robbins, Professor Lionel, Ibid, page 193.

resulted in a very serious and very prolonged depression. The persistency of this depression is explained by the fact that various elements of rigidity have been introduced into the system of state policy. The post-war rigidity of wages is a by-product of unemployment insurance. The cartelising of industry and pooling of agricultural products have, as a result, strained the economic structure. The cartel system of continental Europe is the direct creation of tariffs and other measures of state intervention. The world situation would be very much relieved if the policy of the State is devoted towards lessening these rigidities instead of increasing them. The remarks of Professor Robbins in this connection again are worth noting. He says "the aim of government policy in regard to the industry must be to create a field in which the forces of enterprise and the disposal of resources are once more to be governed by the market."

Successful Economic Planning

If planning is to achieve any success, the Planning Authority must be in possession of up-to-date information and knowledge about all aspects of economic life, and must also be able to use this knowledge. Detailed data should be available about the state of existing production and trade, the distribution of income between the different classes of the country, the organisation of industry and its technical equipment; the composition of its population, its geographical distribution, and the trend of changes. These are some of the few most important subjects about which detailed information must be available. And above all the Planning Authority must possess a very high degree of administrative skill and should be able to use this data properly. The planning of one family's affairs is not by any means an easy job, and when it comes to planning the natural resources of the country, it appears to be a super-human job. The question of planning the economic resources of India under the present system is out of practical politics altogether. Planning, in its broadest sense, could only be undertaken in countries

where the means of production are collectively owned. Planning under the capitalistic system where means of production are owned individually and the Central Planning Authority has no control over them is not possible and any planning measures undertaken in such a system of capitalistic enterprise are doomed to failure. In the system of capitalistic enterprise, production is undertaken with a view to individual profit and firms cannot be compelled to take any action which may not be of direct gain to them. In such a system conflict is bound to arise. Another practical difficulty which a Planning Authority will have to face in India is the lack of any reliable data and the inavailability of many other statistics about even the most vital subjects. Another difficulty is the impossibility of adequate economic calculations. This difficulty arises because of the absence of any definite measure to gauge the wants of consumers. The Planning Authority, before making its programmes for production, must have some sort of idea as to the ultimate end of production. If the final end of production is consumption, it becomes necessary that we should have some agency at our disposal to find out the exact needs of the consumers. If the consumers are left free to make their own choice they will upset the planning, as individual tastes differ, while on the other hand if we assume that no freedom of choice is left to the consumers then planning means tyranny of the first magnitude. It will be a super-human task for the controlling authority to determine in any precise manner the demand for certain goods and in the execution of such planning great friction is bound to arise. This friction would be greater if, due to natural and seasonal variations the output of agricultural products does not come any nearer to the calculation of Planning Authorities and the repercussion of such a change would be very wide. When the supply of raw materials decreases it will affect industrial production and the industrial production would upset all other calculations.

Another difficulty in planning, in a system where

there is no estimate of the cost of production and the relative advantages of various alternative ways of production, is that no calculations can be made regarding the cost of production and the economic efficiency of the system. For instance, taking the case of agriculture and the employment of machinery, we have to consider whether the use of the tractor is more economical or whether human labour can do the same task with lesser costs. "The best tractor factory may not be an asset and the capital invested in it is a sheer loss if the labour which the tractor replaces is cheaper than the cost of material and labour which goes to make a tractor, plus interest."[1]

Those of us who in India are accustomed to think that planning has achieved wonderful success in Russia should read with some interest the following remarks of Mr. Louis Fisher who is a very favourable critic of the Russian system. He says: "Generally speaking when production in a city and village has registered tremendous progress, distribution, however, is in a mess. Part of the difficulty is bad freight transportation by land and water but the trouble goes much deeper. Goods lie in warehouses and rot while the consumer searches for them in one store after another. Widespread conflict and endless red tape bureaucracy are aggravated by equal widespread speculation and the venality of petty officials. The Soviet Press regularly prints details of the misdemeanours of store managers and the co-operative employees. But the cancer remains."[2]

What do we want to Plan For?

Those who advocate planning must clearly state their idea. What is the ultimate goal of planning and why do we want to plan? Apparently these questions look absurdly simple, but when you come to answer them the task is not so simple as it looks. The real difficulty of planning arises when we confine our attention to the details of any industry and still further difficulty arises in

(1) Collective Economic Planning. Edited by Von Hayek, F. pp. 204-5.
(2) New Statesman, Article on Russian Progress, Sept. 24, 1934.

executing our plans. But of all questions the most important one is: who is to be entrusted to carry out the work of planning and whose decisions are to control the resources and the destinies of the nation? I have laid stress on this point because these decisions and their execution is a matter of vital importance. A slight mistake will cause great disturbance and will impose severe hardship on the nation. We must clearly understand and properly appreciate the implications that are involved in planning and we must not base our ideas on mere prejudices or ignorance or on the sudden popularity which planning has achieved during recent years. Another fundamental difficulty which one has to face in making up one's mind about the real worth of planning is that theoretical promises of planning and the actual experience gained from them seldom tell the same story.

The Present System of Unplanned Economy

The present system of capitalistic production has been condemned as chaotic and planless. But is the system really planless? Is it haphazard? Have we derived no benefit from the system? Has it outlived its usefulness? The simple answer to these questions is that during the last hundred years we have made tremendous progress under this system—a progress which is almost unprecedented in the previous history of the world. The standard of living has increased hundredfold. Things which are considered absolute necessaries of life to-day, were considered great luxuries a hundred years ago, and some of them were not available even to many monarchs. The world, which was always living under the shadow of scarcity is now almost immune from it. Science has solved the problem of production and has created a better world for man to live in. No doubt the problem of distribution has become an acute one, which is due to the maladjustment in the system of distribution and on this account the present system of capitalistic production is condemned. But we must remember that it is a recent phenomenon. Even thirty years ago the problem of pro-

duction was more important than the problem of distribution. As production was not adequate, the question of distribution did not become very serious. During the last few decades the capitalistic system has been striving to increase production and it has had no time to think of distribution. Now that the problem of production has been solved to a considerable extent, attention is being devoted to the thorny problem of distribution. It is easy to condemn a system, but it is not so easy to provide something better in its place. Those who ceaselessly condemn the present capitalistic system must bear this important observation in their mind. The allegation that the present system is chaotic and planless does not bear close scrutiny. It is true that there is no central authority which compels people to listen to its dictates and chalks out a programme for them; but the mechanism of the price system and the laws of supply and demand act as omnipotent guides. The plea that the laws of supply and demand do not work in the classical sense in this disturbed world and that the price mechanism is no guide to-day is true. But whose fault is it? Certainly it is not the fault of the system. This delicate system has been severely tampered with by politicians in various countries who want to achieve national self-sufficiency, and it is such countries which are enthusiastic advocates of planning.

It has become fashionable these days to speak of the dilemma of "poverty amidst plenty." It is alleged that this is due to the inherent defect in the capitalistic system. But is it? There is scarcity amidst plenty because of the chaotic effects of increasing State intervention in economic life, due to the crazy idea of economic self-sufficiency. If wheat is rotting in a certain country and there is no demand for it, there are certain other countries which though not climatically suitable for the production of wheat and unable to produce the commodity at any competitive price, are madly endeavouring to increase their production, and are offering very high prices for the supply of wheat to their own nationals by prohibiting foreign

imports. Whose fault is it? Who is creating scarcity amidst plenty? If Germany and Italy are planning to increase their wheat supply, which they cannot produce as cheaply as other countries like Canada and United States, and if this is the criterion of planning, then Heaven help the planned world. Now we shall try to see what results have been achieved by planning in countries which have embarked on this programme.

Some Examples of Planning Under the Capitalistic System

The New Deal[1] was the first effort towards planned economy which President Roosevelt advocated before his election to the Presidential Chair.[2] The inability of the New Deal to achieve any substantial recovery and its utter failure in planning the economic resources of the country offer a concrete example of the difficulties of creating planned order.

Coming nearer we find that planning has been very strongly advocated for the agricultural industry of Great Britain and serious efforts have been made to achieve this end via Marketing Boards. We shall presently study their structure and the results achieved by them in order to see how far this planning has been successful.

Planning of British Agriculture

A good deal of attention has been devoted in the United Kingdom during recent years to planning British agriculture and it will be a matter of great interest to us in India to see how far this planning has succeeded. The first step towards planning British agriculture was the establishment of Marketing Boards which were authorised by the Marketing Act of 1931, passed by the Labour Government. This Act provides that substantially representative persons of producers may submit a scheme of marketing of agricultural products to the Minister and if the scheme after due enquiry is approved by a two-thirds majority of the producers, it becomes incumbent on all the producers. The measure was only a permissive piece of legislation and did not achieve much success.

(1) A separate Chapter has been devoted to the study of the New Deal. See Chapter V.

(2) For President Roosevelt's views see his book "Looking Forward".

When the National Government came into power and adopted the policy of protection, agriculture received a lion's share. The 1931 Act was amended in 1933. The amending Act introduced two revolutionary measures:—(1) Quantitative restrictions on agricultural imports, (2) Limitation of agricultural output at home. It also provided for the compensation of the producers who suffer losses through the operations of the marketing schemes. Various important commodities have been brought under the operation of these schemes, *i.e.,* milk and milk products, pigs and bacon, potatoes, hops, etc.

Working of These Schemes

It is not possible for us to study the working of all these schemes, but we shall take the two most important of them, *i.e.,* Milk, Pigs and Bacon.[1]

Milk.—Milk is an important item of agricultural production in England. In the beginning of 1933, it was estimated that 250,000 persons were occupied in the production of milk, the sale value of which amounted to approximately £55 millions.

Liquid milk is a highly perishable commodity and because of this the home producer enjoys a virtual monopoly of the home market. As there is a great disparity between the price of liquid milk which is used for drinking and other such purposes, and the price for milk which is used for manufacturing purposes, the supply of milk continued to increase without any appreciable rise in its consumption. The competition of foreign dairy products became severer after the depression as most European countries closed their door against the import of foreign agricultural products and Britain remained comparatively an open market. This competition seriously affected the British farmer who was producing butter and cheese while the stationary demand for liquid milk in face of increasing supply further aggravated the situation. The existence of the two different prices (in many cases a difference of 100 to 200 per cent.) for the same

(1) For details see "Co-operation and the New Agricultural Policy." The Horace Plunkett Foundation (Kings' London, 1935).

commodity created a dangerous situation. "The policy that has been pursued by the Milk Board in regard to the price of liquid milk indicates the drawbacks of the system under which the Board representing the producers is empowered by statute to fix a minimum selling price at their discretion."[1]

The Milk Scheme that was introduced to ease the situation is rather a complicated one. "The English Milk Marketing Scheme was not merely one of market regulation and price-fixing but of combined price equalisation and price differentiation of a most complicated and delicately adjusted kind."[2]

Space does not permit one to go into the detailed working of this scheme but it may be shown that the planning of the Milk Marketing Board—the body which was set up to administer this scheme—did not achieve the results which were expected from it, and that further complications arose, which made the situation in many respects go from bad to worse. We shall mention some of the conclusions reached by the Consumers' Committee.

The Consumer's Committee, which was appointed by the British Minister of Agriculture to make detailed investigations, found out that price fixing had led to price raising. The restriction of the sale of milk by the unregistered producer-retailers was driving the poor persons in rural areas to the tinned milk, which was cheaper but not equally good. This not only was harmful to the health of the consumer but was also a factor in increasing the available supply of liquid milk. The increase in the price of liquid milk curtailed the demand. During 1934 while there was only one per cent, increase in the price of food products as a whole, the rise in the milk prices was 10 per cent. The system of pooling the total milk supply discouraged the producers of better milk as they did not receive any higher price for the better quality produced by them. The production of milk increased and the greater amount had to be used for manufacturing

(1) The Agricultural Dilemma: A Report of an enquiry organised by Viscount Astor and Mr. B. Seebohm Rowntree. King, London, 1935. p. 50.

(2) Co-operation and the New Agricultural Policy. op. cit. p. 11.

purposes. But such manufactured products were not able to stand the external competition and the prices paid by the manufacturers to the milk suppliers were considered unremunerative by the milk producers and the Government had to grant a subsidy to the milk producers. "The volume of milk which has been diverted to the manufacturing market has increased with extraordinary rapidity. In July, 1935, for example, the sales of manufactured milk amounted to 34 million gallons, against 19 million gallons in July, 1934, whereas the sales of liquid milk increased only from 46.1 million gallons in July, 1934 to 46.8 million gallons in July, 1935."[1]

But there is also another aspect of the matter which is of greater importance than any thing else and that is the political aspect. British farmers exerted every possible political pressure on their Government to restrict the imports of dairy products. But the hands of the Government were tied by the Ottawa Agreement. The British Dominions were asked voluntarily to reduce their exports but in return the British Government received very indignant replies and the Dominions expressed great dissatisfaction at this attitude on the part of the Mother country. The very existence of a Dominion like New Zealand depends on the dairy industry and its future prosperity is very intimately related to the expansion and development of this industry. How could it afford to reduce its export of dairy products? Australia went as far as to say that if her products were not wanted in the British market, she was unable to meet her debt obligations. This threat created a very serious situation. Britain had to take into consideration the wishes of the British Dominions, not only for political reasons but also for economic reasons. These are: (1) The British Dominions are the best customers of British industry (2) It is British capital that has been sunk in the British Dominions and Britain draws a good deal of income from these investments (3) Agriculture is of minor importance to Britain and the interests of industry which are the life

(1) The Agricultural Dilemma, op. cit. pp. 48, 49.

blood of the country cannot easily be neglected. If the policy of agricultural protection is pushed too far, it will raise the cost of production to the British manufacturer which will seriously handicap him in competing with other countries in the foreign markets.

The working of the Milk Marketing Scheme is far from satisfactory. "It is a serious criticism of the Marketing Boards that their policy has hitherto been such as to impede the natural and healthy development, and this experience in the case of milk suggests the desirability of reforming the constitution of Statutory Marketing Boards so as to secure that more regard will be paid in the policies pursued to the interest of the consumer and the public generally."[1]

Pigs and Bacon

The Pigs and Bacon Boards were organised in Great Britain as a result of the recommendations made by the Reorganisation Commission for the Pig and Bacon Industry which reported in December 1932. These Boards possess very wide powers. The import of bacon was subjected to quota and the imports declined. The import of bacon during 1932 was roughly 12 million cwts. It decreased to 8.3 million cwts. in 1934. It is interesting to note that in spite of this great reduction in the quantity of bacon imported, the price paid for this smaller amount of import was approximately the same, *i.e.*, £30 million as in 1932. The price of Danish bacon increased considerably. At one time it increased from 56 shillings per cwt. to 98 shillings per cwt.[2] There was an increase of 3d. per lb. which in some cases reached to 4½d. per lb. constituting a considerable burden to the purchaser of cheaper quality and definitely checking consumption. While there was a scramble for Danish bacon and its price soared high, the price for British bacon remained the same. Consumers were prepared to eat less good Danish bacon rather than to buy a large quantity of British bacon, the quality of which was not so good. No

(1) The Agricultural Dilemma, op. cit. page 51.
(2) Co-operation and the new Agricultural Policy. Viscount Astor and Murray (Oxford) p. 44.

planning can solve this difficult problem and no planning authority can gauge the trend of consumers' preferences.

Bacon is a staple diet for breakfast for the English masses and the increase in the price of bacon, which is the outcome of the Marketing Boards, has seriously affected the consumption of bacon by the poor classes and has imposed great hardship on those elements of society which were least capable of bearing it. The farmers have been complaining that although they pay more for their bacon they have been getting no more for their pigs. And in many cases it is claimed that they have got even less.

General Criticism of the Marketing Board

The Marketing Boards have been very severely criticised in neglecting the interests of consumers and in raising the prices to them. The raising of the prices very often involves the control of production and if the State undertakes the control of production it would naturally end in undertaking the production itself, and the State may find itself under heavy financial obligations which are likely to impose a greater burden on the tax-payers. But it will not end here. It will lead to various other complications. These complications are well illustrated by an example given by Viscount Astor. He remarks "If the various commodity Marketing Boards get busy allotting quotas the whole balance of the farm will be upset. Pig quotas will bear no relation to grain or butter production; mutton and lamb quotas will be fixed regardless of any interdependence in the farming system of sheep, roots and barley. If the harvest weather breaks and the farmer has a lot of poor grain on his hands he cannot increase his hens, pigs or cattle, because his egg quota, his contract for pigs and his allotment for fat cattle are fixed. Even if he stored the grain he would have no guarantee of a greater allotment next year."

Control of Marketing Boards

The multiplicity of such Boards and the task of coordinating them becomes a very difficult one indeed. Further the control of such commodities increases the

instability of the prices of those commodities which are not subject to the control. The stabilisation of the bacon market, for example, increases the instability of the uncontrolled pork market.

Difficulties also arise when restricted acreage is allotted to certain producers because such producers intensify their production by the use of powerful manures, and use other methods of intensive cultivation to get increased production from the restricted acres. As a matter of fact the use of quotas to limit the acreage of the controlled crop which a farmer is permitted to grow has very often remained ineffective by the use of intensive methods of cultivation. This method was tried in Egypt in 1929 with regard to cotton and the cotton growers were not permitted to grow more than one-third of each holding in cotton. The growers evaded this law by intensifying their production and the result was that in spite of decreased acreage there was no appreciable decline in the production of cotton.[1]

However some success can be obtained by restricting the amount of produce which a producer can bring to the market. But this is only possible in countries where one crop predominates or in the case of countries where the major amount of production is exported. But in a country like India where the crops produced are so numerous and the number of holdings and producers so great, it is hardly possible to achieve any success in this direction.

Planning under Socialism

Planning, to be successful, requires the control of production. So it is said that planning could be more successful under the socialistic system than under the capitalistic system. Let us see how far planning under socialism can succeed. The inherent defects in planning under socialism are well exposed in a recently published book entitled "Collective Economic Planning". The main objections, according to this book are briefly these: Without private ownership of the means of production

(1) For details see Economics, October 29, 1932.

there can be no market for them; the pricing process cannot be applied to them or to intermediate goods; lacking prices, there is no means by which a planning authority, however intelligent and well intentioned, could determine whether the means of production were being used to the best advantage; its decisions would in the last resort be arbitrary rather than rational. Socialistic planning will eliminate private enterprise and this function would be performed by State Corporations. In this connection Sir William Beveridge asks some pertinent questions about the Corporations and their relation to the planning authority. He asks " What would be the internal structure of these Corporations? What would be the nature of their dealings with other Corporations and of the prices formed in these dealings? What would be the division of responsibility between them and the Planning Commissioner?" We take the liberty of quoting some of his answers at some length to throw some light on these important questions.

"If each corporation with its sphere is a closely knit monopoly, determining quantity and quality of production, in all its units and as a whole, by the decision of a single authority, there will be no force driving the corporation automatically to render maximum service to consumers. The decisions of a monopolist as to the scale of production are indeterminate; he may equate supply and demand at any one of different prices, all sufficient to yield a profit; the point of highest profit is not necessarily that of greatest satisfaction to consumers, that is to say of best use of the available resources. The pricing process under capitalism assumes, not merely private ownership of the means of production, but a free market, that is to say more than one buyer and more than one seller and access to that market for all who wish to enter. If the socialist state entrusts the management of industry to monopoly corporations, it makes decisions regarding production and prices in the last resort arbitrary and indeterminate. Though the monopolies

buy and sell at prices, the prices will be settled by strategy rather than by general advantage."

"There is the problem of division of responsibility between the central authority and the corporations. The central authority cannot instruct the corporations on details or supervise all their actions. The responsibility of the latter must be real: their managers must suffer for failure and gain by success, in emoluments, prospects of esteem, even though profits are excluded. But it is the central authority that in the last resort will have to pass judgment and allot resources or withdraw them. It is the central authority that will have to prevent exploitation of monopoly power in the giving of unduly favourable terms of employment to persons in particular industries. Can it exercise this control without destroying initiative and sense of responsibility?"[1]

The experience in Russia in this connection is very valuable, especially in the field of collective farming Russia has realised to its great dismay that the theory of central control does not work in practice and is reluctantly reverting to the individualistic system. Even in the field of industry the results have not been so striking as were originally expected and the amount of waste that has resulted by this controlled system is simply outrageous.

Planning either under the capitalistic system or under the socialistic system does not seem to offer any substantial hope of solving the economic problems of the world.

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(1) Planning Under Socialism—Sir William Beveridge op. cit. pp. 16-18.

CHAPTER III

CONTROL OF PRICES

CAN we control or raise prices? In order to answer this question we shall study some of the measures that have been adopted to control or to raise prices, and shall leave the reader to his own judgment in answering this question. The main idea underlying all these measures is either to achieve a favourable balance of trade or to develop the national economic resources with a view to achieving economic self-sufficiency.

Measures to Control Prices

A. IMPORT PRICES

(1) Tariff Duties.

(2) Milling and other Mixing Regulations.

(3) Quotas.

(4) Import Licensing.

(5) Import Monopolies.

(6) Exchange Regulations and Currency Restrictions.

B. EXPORT PRICES

(1) Export through Commercial Agreements.

(2) Export through Dumping.

(3) Regulation of Production designed to improve or standardise the Quality.

(4) Restriction of Quantity of Exports with a view to increasing the Price of the Controlled Production in the Markets of the World.

SECTION I

MEASURES ADOPTED TO CONTROL IMPORT PRICES

Tariff Duties

Before the Great War tariff duties were the principal weapon for protecting the home industries, thereby raising the prices in the importing countries. This is an indirect means of restricting imports. The result of such a policy is to encourage home production. When duties are imposed, the prices in the home market generally rise. This usually leads to more production at home while the consumption is very often decreased. It is more liable to decrease in the case of " fashion goods " than in those of the necessaries of life, the demand for which is not so elastic. The taxing of commodities raises the burden of indirect taxation which is borne more by the poorer than by the richer classes of society—a regressive system of taxation which is contrary to all the accepted principles of taxation. This is one of the chief arguments against heavy import duties, but their consequent effects on other forms of production must not be lightly treated. The imported commodity may be a raw material for the production of another commodity at home which would probably increase the cost of production of that commodity. The cumulative effects of protection are very serious and it is very much to be regretted that various tariff boards do not give serious attention to this fact. Moreover protection is no effective measure for raising the prices in the home market when the general price level is falling, and countries which have a depreciated currency are likely to compete with the importing countries in spite of heavy duties. This shows how protective duties once imposed tend to increase. But the increased duties do not give absolute protection to the home industries, as exporting countries adopt various measures, such as export subsidies, which we shall fully discuss in another section, to counteract the effects of heavy import duties. In various countries sliding-scale duties have been introduced to stabilise the home prices and to guard against the decline of import prices. An example of this

is the duty on the import of wheat in New Zealand. This duty is 8d. per bushel when the value of wheat at the port of export in the country of origin is 5 shillings; but for every penny by which this value exceeds 5 shillings, the duty is reduced by a penny, and for every penny by which it is less, a penny is added to the duty. Sliding scale duties on wheat are in effect also in South Africa, Egypt, and Chile. The trouble with tariff duties is that there is no end to the beginning. Take the case of Irish Free State. Tariff duties did not play any important part in the economy of Ireland as long as it was a part of the United Kingdom. For all practical purposes (except duties on a few articles) the U.K. was a free trade country until the present crisis started. When the Free State came into operation its Government accepted the principle of protection, but until 1931, the Free State was a comparatively moderate tariff country. But when the Government of President De Valera came into power, it embarked on a bold programme of protection and imposed heavy protective duties on the import of various commodities. This programme was further strengthened by the Economic War. At present this country does not lag far behind any protectionist country of the world in its programme of protection and heavy import duties. And these duties have been supplemented by various other control measures.

Milling and Mixing Regulations

As pointed out above, import duties do not give absolute protection to the home industries in face of falling prices and by no means guarantee an increased price in the home market. In order to counteract this effect; the ingenious system of milling and mixing regulations has been introduced in various importing countries. This method has become prevalent since 1929, when prices of most agricultural products began to decline seriously. By this system the import of a commodity is restricted to a certain percentage of the domestic consumption. The method of restricted imports has received wide-spread acceptance in the case of the import of wheat.

Control of Wheat Prices

Wheat is one of the most important agricultural commodities which enters into international trade. It was the first commodity to feel the impact of economic depression and prices of wheat began to fall, spreading disaster all over the world. The falling prices of wheat very seriously disturbed the balance of international payments and touched the pockets of a large number of farmers.

As a consequence, from the early stages of depression, wheat was subjected to various restrictions and most wide spread legislation, and government control was introduced in many countries of the world. Importing countries imposed increasing duties, which resulted in export subsidies from the exporting countries and in return the importing countries imposed import quotas and restrictions more rigid than the high tariffs. The spirit of economic nationalism and the implied fear of War has further aggravated the matter.

The measures of restriction applied by various countries have differed very widely owing to the requirements of each. The exporting countries have adopted dumping measures, export subsidising, trade agreements, and depreciation of their currencies. The importing countries, on the other hand, have raised their tariffs, introduced milling and mixing regulations whereby a certain proportion of the home grown wheat must be used by the millers. Foreign exchanges have been controlled and the system of licensing and import monopolies have been introduced whereby a virtual embargo has been placed on the import of wheat except under special control or licence.

In a work of this nature it is hardly possible to go into the details of such restrictions in each country of the world. However, here we shall briefly describe the measure which was passed in Great Britain to help the farmers, as it is an ingenious measure and is of particular interest.

The Wheat Act of the United Kingdom

On May 12, 1932, the British Parliament passed the Wheat Act, the object of which was to guarantee the producers of home grown wheat a price of ten shillings per hundredweight, which is far in excess of the prevailing price of wheat in the world market. The Act has little economic justification, and is more or less a political measure which has been passed to satisfy the British farmer. The main idea underlying the Act is to help the British farmer by giving him a bounty which is ultimately borne by the consumers of bread. It imposes an obligation on the British millers and importers of flour to pay this high price to the British wheat growers, and ultimately this is passed on by the millers to the bakers, who pass it on to the ultimate consumers of the bread. It works out in practice like this. The Wheat Act provides that a guaranteed price of ten shillings per hundredweight must be paid for millable wheat not exceeding more than 27,000,000 cwts. This limit has been imposed to check over production in wheat. Wheat growers sell their wheat at the prevailing market price to whomsoever they like. At the end of each year (which is July 31st for this purpose) the Wheat Commission (the body set up to administrate the Wheat Act) pays each farmer the difference between the price realised and the guaranteed price of ten shillings. These payments which are called 'deficiency payments' are made from the fund provided by flour millers and importers.

The Working of the Wheat Act

This Act has worked very successfully and British farmers have realised prices far in excess of those prevailing in the market of the world. Here we reproduce some figures for the year 1935-36.

The Wheat Subsidy

The Wheat Commission announced its final figures for the crop year 1935-36 in August, 1936.[1] It will be recalled that the Wheat Act guarantees a price of 10s. per cwt., or 45s. per quarter for a maximum quantity of

(1) For details see the Economist dated 29th August, 1936.

27,000,000 cwt. of home-grown wheat, the funds being raised by a levy on flour milled. The Commission found that in 1935-6 the average price realised by British growers was 5s. 2.31d. per cwt. Administrative expenses of 0.593d. per cwt. were to be deducted, leaving 4s. 2.17d. per cwt. But a total of 33,650,000 cwt. of British wheat was sold, and the deficiency payment was accordingly reduced in the proportion as this figure exceeds 27,000,000 cwt. The net result of these calculations is that the registered grower received 3s. 4.26d. per cwt. He had already received 2s. 9d. on account, and the balance was paid to him. The average return to the domestic wheat-grower thus works out at 9s. 1.491d. per cwt. or 41s. 0.45d. per quarter. The deficiency payment of 15s. 1d. per quarter compares with payments of 17s. in 1934-5 and 21s. 10d. per quarter in 1933-4. The wheat subsidy scheme can thus count among its technical advantages that its cost diminishes as the world price of wheat rises. In 1936-7 its cost will fall still further, as the average price of wheat promises to be substantially above the level of the past twelve months. In anticipation of this, the Wheat Commission has already reduced the levy on flour from 3s. to 2s. per sack. This year's domestic wheat harvest will also be considerably smaller than last year's, but this will not further reduce the cost of the subsidy unless the total yield falls below 27,000,000 cwt.

The effect of Wheat Control Measures on the Standard of Living

We are living in a very strange world indeed where people are starving amidst plenty and many are insufficiently clad while others do not know how to dispose of their surplus cloth. The result of all these restrictions has been that the standard of living has suffered a definite set-back in many countries of the world. Taking the three leading European countries, France, Italy and Germany, we find that while production of wheat owing to various artificial stimuli increased by 105,000,000 bushels in 1931-2, the consumption was reduced by 135,000,000 bushels.

The result of these restrictions on the world economy has resulted in a difference of 240,000,000 bushels in the balance between production and consumption.

If these restrictions had not prevailed the difference would not have been so great. The world production would have been less by 105,000,000 bushels and world consumption would have been 135,000,000 bushels more. If we take the other countries of the world where such severe restrictions are also prevalent, the picture becomes extremely gloomy and one feels inclined to believe the story of "the man who hanged himself in expectation of plenty." The frantic attempts that have been made by various Governments in controlling the prices of wheat have very much confused the matter; and they have not been able to get the desired results as easily as they thought they would.

Wheat is a basic agricultural commodity, and steps have been taken in almost all countries of the world to interfere with it. Uneconomic growing of wheat has been encouraged in most European countries. The result has been a considerable rise in the price of bread in these countries as compared with the price of bread in countries with low tariffs and without milling regulations.

Another commodity which has been subjected to such mixing regulations and heavy protection is butter. The following table shows the variations in the price of butter in various countries.

Average Retail Price of Butter, October 1934.

Swiss Gold Francs per Kilogramme.[1]

Importing Countries		Exporting Countries	
Canada	1.70	Esthonia	1.03
United Kingdom	1.72	New Zealand	1.40
United States	2.24	Finland	1.77
Czechoslovakia	2.27	Denmark	1.79
Belgium	2.75	Poland	1.80
Italy	3.03	Yugoslavia	1.87
France	3.55	Australia	1.90

(1) International Labour Review, March, 1935.

Importing Countries		Exporting Countries	
Germany	3.79	Latvia	1.93
Switzerland	4.75	Sweden	2.05
		Hungary	2.10
		Norway	2.20
		Irish Free State	2.34
		Austria	2.36
		Netherlands	3.48

These statistics reveal a very sad story of economic interference. The results of such a policy have been very unhealthy. Various measures have been taken both in importing countries and exporting countries to raise the price of butter with the same purpose in view, *i.e.*, to assure an increasing return to the producers—and the result has been that both sets have been beaten by protectionist and controlling measures adopted in both countries. The importing countries have been compelled to increase duties on the imports owing to the fall in the import price, and the exporting countries have tried to increase their exports by giving export business which have been raised by imposing levies, and by increasing prices in the home market. The Irish Free State is far ahead in this mad race. As a matter of fact, with the exception of two countries, Austria and the Netherlands, it is the fastest moving country in the race of increasing home prices. The price of butter in the Free State home market is 2.34 francs per kilogramme, while in Esthonia it is only 1.03, a difference of over 150%. Comparison with Esthonia may not be so analogous with the Free State, but when we compare the prices in the home market of New Zealand and the I.F.S.,—countries very similar to each other in various respects—we find that in the New Zealand home market the price is only 1.40, while in the Free State it is 2.34, a difference of well nigh 100 per cent.

Various other examples of such regulations can be quoted from European countries. Alcohol is an instance. The laws of certain countries provide the compulsory use of alcohol as motor fuel. In Germany and Czechoslovakia an artificial market is created for pota-

toes which are used in the manufacture of alcohol. In Germany the law provides that importers and manufacturers of motor fuel must use a certain quota of home made alcohol. In Czechoslovakia the limit is 10%. The Irish Free State Government has gone very far in this respect and has provided regulations for the mixing of various feed stuffs. In Germany the cumulative effects of such a policy show the difference of prices of various commodities in Germany and the world market.

Price in Reichsmarks per 100 Kg. in December, 1934[1]

Commodity	Germany	World Market
Wheat	20.55	10.41
Rye	16.55	6.58
Oats	14.88	5.29
Fodder and Barley ..	15.45	8.17
Maize (Plata)	15.50	5.84
Cattle	82.00	23.87
Pigs	96.00	28.37
Butter	260.00	121.77
Lard	181.00	66.86
Eggs (per 100)	11.50	4.97
Sugar	44.00	9.17

The above figures require no comment. They conclusively show how prices are raised artificially by violating the sane principles of economics. This tremendous increase in the prices of the necessaries of life has involved Germany in many serious troubles which it is not the purpose of this chapter to discuss[2], but this much may be pointed out here, that this experiment has raised the cost of living very considerably and has affected the cost of production in German industry very seriously. It has also resulted in lowering the standard of living of large masses. The following table shows the per capita decline in the consumption of important foodstuffs in that country.

(1) The Economist, Jan. 5, 1935.
(2) World Economic Survey, 1934-35, page 59, League of Nations.
(3) See Chapter IV.

Per Capita Annual Consumption of Products in Germany

Commodity.		Unit.	1929	1932	1933	1934
Butter	...	lbs.	15.9	16.3	17.6	15.3
Margarine	...	,,	17.3	17.6	13.0	12.3
Lard	...	,,	8.1	8.1	7.6	6.7
Total Fats	...	,,	41.3	43.0	38.2	34.3
Eggs.		Number	...	120	101	99
Beef and Veal	...	lbs.	43.0	37.2	36.1	40.7
Mutton and Lamb	...	,,	1.5	1.4	1.5	1.3
Pork	...	,,	67.5	68.1	70.1	77.2
Other Meats	...	,,	1.8	1.2	1.3	1.5
Total	...	,,	113.8	107.9	109.0	120.7

The increased consumption of meat in Germany in 1934 is due to an increase in the consumption of pork, which was due to the increase in the slaughter of pigs and the comparative decline in their number. With the exception of the consumption of pork, the consumption of every other kind of meat was smaller in Germany in 1934 as compared with 1933. Under the tariff system the consumer was left to choose whatever he wanted to buy, provided he was prepared to pay the higher price. But under quotas and milling regulations no choice is left to him, as the quality of the products is not determined by the price system but by the executive fiat. This tends to discourage consumption in importing countries and deprives producing countries from selling their products even if there is a demand for them. Under the quota system, while producers in the importing countries are assured of a reasonable fixed price for their products and are protected against seasonal fluctuations, producers in the exporting countries are made to bear a greater share of the burden of price fluctuations which further depresses the world markets and consequently has indirect effects on the importing countries, owing to a fall in the world prices. Another effect of such regulation is the encouragement of wasteful production at home. This heavy agrarian protection which Europe has adopted to solve its difficulties is bringing Europe to its own

ruin. In this connection the remarks of Sir Fredrick Leith Ross may be read with interest. He says "The distress created for the efficient agricultural producers by the loss of their markets for agricultural products in the main European industrial countries accordingly ends in distress for the efficient industrial producers of Europe owing to the loss of their markets in the agricultural countries, to the general impoverishment of the world." He further remarks that "The present world crisis is the composite result of many different causes, but one of the measures which would indubitably promote world recovery would be a gradual realisation of the present intensive agrarian protectionism of the industrial countries of Europe and its replacement by a system comparable with that which prevailed before the war."[1]

Quotas[2]

Another weapon to control the prices in the home market which has been extensively used in the post-depression world is quotas. Under the quota system imports are regulated and a definite share per month or quarter is assigned to the exporting countries with or without their permission. Quotas are imposed to give an assured market to home producers by regulating the quantities of imports. Quotas may not be necessarily used for protective purposes. They might be used to stabilise the prices in the home market. As already pointed out, quotas are of comparatively recent origin, and they owe their birth to the present depression, and their growth to the financial crisis. Increasing use has been made of them since 1931, by various countries. In some countries, such as France, Poland, Switzerland and Holland they are applied to a very extensive range of commodities. In Great Britain they have been used to regulate the prices of meat. In Germany quotas are used for two sets of purposes, *i.e.*, to import certain commodities at a com-

(1) Agricultural Protectionism. Appendix 1, page 15. League of Nations.

(2) Economic Survey. Op. cit. 1935, 159. In the following countries the system of import quotas is in existence: Belgium, Bolivia, United Kingdom, Chile, China, Czechoslovakia, Ecuador, France, Germany, Greece, Hungary, India, Indo-China, Irish Free State, Italy, Luxembourg, Netherlands, Netherland Indies, Norway, Palestine, Portugal, Roumania, Spain, Sweden, Switzerland, Turkey, Uraguay.

paratively low rate of duties, while heavy prohibitive duties have been imposed on others.

The chief reasons which have led to the widespread use of quotas in the various countries of the world is the depreciation of currencies, and the great fall in the world price level. When an exporting country's currency is depreciated, say to the extent of 50%, even a high protective duty of 40% in the importing countries can be of little protection to the home producer to compete with the exported products of the country whose currency has been depreciated to the extent of 50 per cent. The system of export subsidies and dumping which has been adopted by very many exporting countries has been largely responsible for the protection of home producers and the introduction of quotas in importing countries. The former " Gold Block " countries were compelled to regulate the imports from sterling countries owing to the great fall in the value of sterling currency. This competitive currency depreciation has gravely perpetuated the present depression as one country has set up artificial barriers against the products of the others and the race has been going on for some time. As long as currencies are not stabilised there seems little hope of the removal of the restriction of trade barriers in international trade.

"The policies of economic nationalism recently followed have been a protest against such interdependence (the interdependence of the countries of the world on each other) and an attempt to protect group interests in each country from the disturbing effects of external change. However defensible such policies may be in particular cases, they are, in the aggregate, a flight from reality. The reality is that the people of the world are and must be interdependent members one of another, and every improvement in communications makes that interdependence more real. The events of 1934 and 1935 amply demonstrate this."[1] The introduction of the quota system has led to friction in international relations and the British Dominions have already exchanged some

(1) World Economic Survey, op. cit. page 192.

severe notes on the subject with Great Britain. However, as a temporary policy the quota system is not without its advantage.

Advantage of the Quota System

At a time of falling prices, and depreciated currencies, the quota is the best method to protect home producers and to raise the internal price level. Tariffs, however heavy, can be of little use to home producers when the exporters make up their minds to dump their surplus products, in which they are aided by their governments by depreciated currencies and export subsidies. Moreover, many agricultural products are of a perishable nature and may be disposed of by clever producers at any price in order to destroy home producers. Quotas are the only way to save home producers and as a temporary expedient it is by far the best method to protect the home producer and to raise the prices of home products. Besides protecting the home producers and raising the internal price levels quotas have been used to advantage by national dictators to reduce imports and to improve the balance of trade. They have also been used to evade the treaties obligations by which the importing countries have agreed not to raise the duties beyond certain limits.

Disadvantages of the Quotas

The disadvantages of the quota system outweigh their advantages. In the first place quotas impose serious limitations on the choice of consumers and are a direct violation of their natural rights. Besides, they bring into being a vast govermental machinery for the supervision and management of the system and leads to red tape and friction in its management and involves serious straining of international relations. An interesting account of how quotas affect treaty obligations is given in an American publication from which the following may be quoted.[1] An illustration of the way in which the application of most favoured nation treatment has become complicated

(1) World Trade Barriers in Relation to American Agriculture. 73AD. Congress Document, No. 79, page 74.

arose recently in connection with the butter tariff. In February 1932 Germany made an agreement with Finland that it would admit an annual consignment of 5,000 tons of butter from Finland at a duty of 50 reichsmarks per quintal. The duty was lower than any German duty on butter in effect at that time. The same concession was, of course, automatically granted to all countries with which Germany had most favoured nation treaties. This arrangement caused great dissatisfaction in Holland, Denmark, and other countries which export considerable quantities of butter to Germany. Since the imports from Finland are small in comparison with those from Holland and Denmark, a consignment of 5,000 tons allowed a large proportion of butter from Finland, but a relatively small part of the imports from Holland and Denmark, to enter at the reduced rate. According to the Dutch and Danish point of view, therefore, the new arrangement was a violation of the spirit of the most favoured nation clause. In addition, Denmark and Sweden had another grievance. Shortly before the arrangement was made with Finland, Germany had imposed an anti-dumping duty of 36 reichsmarks per quintal on butter imported from countries not on the gold standard. This applied to countries having most favoured nation treaties with Germany, and was added to the regular duty. Thus, as a result of the anti-dumping duty and the quota arrangements resulting from the agreement with Finland, no less than four rates of duties on butter imported from countries having most favoured nation treaties with Germany were in effect. Countries on the Gold Standard paid 50 reichsmarks on butter within the contingent and 100 reichsmarks on other butter. The corresponding figures for countries with depreciated currencies were 86 and 136. Countries having no most-favoured nation treaties paid 170 reichsmarks. Since the fixed contingent formed a different proportion of each country's export, it is clear that no two of the countries receiving nominal most-favoured nation treatment paid the same average rate of duty. In November this complicated state of affairs came

to an end, and a uniform rate of 75 reichsmarks was applied. At the same time imports from each country were limited to a certain proportion of the imports during 1929-31. Although this involves approximately equal treatment, it does not permit free competition between the various exporting countries.

The post-depression history of the world is full of other such examples. Another drawback in the quota system in comparison with tariffs is that while in the case of tariffs the duty goes to the exchequer and provides relief to the tax-payers to some extent, in the case of the quota, the advantage, instead of going to the Exchequer, goes to the importing firm.

Quotas have also been advocated on the ground that they increase the purchasing power of the foreign countries, and thereby create a demand for the products of importing countries. This is not a mere belief of the man in the street, but it carries conviction with a British Minister for Agriculture who in one of his speeches remarked, "It is in the interest of the world quite as much as of our own producers that the supplies into this country should be controlled and should not be turned on and off with violence. It is essential in modern conditions, whatever may have been our views in the past on this matter—that the shades of Bright and Cobden should no longer influence us. Not only is Queen Anne dead, but Queen Victoria is also dead, and we have to shed Victorian economics once and for all, and go forward to the organisation of markets and a world planning in those markets."[1]

The above extract from the British Minister's speech is a typical example of the "Government Economics" which has come into the forefront during the present post-depression period. In quotas, the advantage, instead of going to foreign producers generally goes to the importing firms. The practical contradiction of this speech is afforded by the example of chilled beef imported from

(1) Major Elliott, Minister for Agriculture, G. B. March 20th, 1933. Speech on the Second Reading of the Agricultural Marketing Board.

the Argentine, where the producers made strong demands that the quotas should be administered by the Argentine Government in the interests of Argentine beef producers, as all the advantages of high prices in the British market were being secured by the importing firms. "Generally speaking, the importing firm, rather than the exporting producer, benefits. The importer has increased bargaining power in purchasing his supplies, since the imposition of restrictions results in extra surplus in the exporting countries, a surplus which cannot in the case of most agricultural products be kept off the markets, and therefore depresses farm prices in the exporting country even farther than would have happened otherwise."[2]

Another serious objection to the quota system is that it may not succeed in raising the price of the home-product and may increase the price of the foreign products. This is illustrated by the case of the importing of bacon in Great Britain. Danish tank-cured bacon is preferred by consumers in Great Britain to the tank-cured British bacon. When quotas were imposed in Great Britain on Danish bacon, consumers instead of buying British bacon bought the available supply of Danish bacon at an increased price. In rich countries consumers are always prepared to sacrifice quantity at the expense of quality. Thus the quota may fail in its very purpose and may impose serious restrictions on the choice of home consumers at a sacrifice.

Another serious drawback in the quota system is the periodical arrangement of the quotas allotted to various countries. Quotas as temporary measures are excellent weapons for protecting the home market against dumping and depreciated exchanges. But when they become a permanent policy there is no more dangerous weapon than quotas. The success of the quota system depends upon very accurate estimation of the demand, and an accurate knowledge of the various actions and restrictions which affect prices. Furthermore, it also requires the knowledge of variations in the supply of the

(2) The Planning of Agriculture, Astor and Murray, op. cit. page 120.

product from the principal countries. A single whim of nature may beat all human plans. A supply may be drastically curtailed owing to failure of crops from the exporting countries and thus may add to the inability of the exporting country to fulfil its quota, and seriously affect the consumers owing to shortage of supply. The application of the quota system to agricultural products is open to more serious objections than its application to manufactured products. Production can be fairly controlled and planned beforehand in industry, but it is almost impossible to do so in agriculture owing to the inherently different nature of the industry. An interesting case of how nature beats human plans is illustrated by the conditions in the United States. In the last quarter of the year 1933 ,the U.S.A. had a huge surplus of wheat and other products. In many parts of the country wheat was dumped into the sea. Great efforts were made by the U.S. Dept. of Agriculture to curtail wheat acreage. But the drought of 1934 changed the whole situation. The United States was actually threatened with a shortage of various crops which a few months before were glutting the market, and for the first time in the last seventy-five years, in 1934-35, the U.S.A. became a net importer of wheat.

The example of the U.S.A. (which can be easily supplemented from scores of other countries) emphasises the dangers of planning in agriculture and the failure of the quota system to assure stabilisation of prices. Owing to wide fluctuations in the supply of agricultural products it seemed absolutely necessary that quotas should be changed from time to time to suit the seasonal requirements. But frequent changes in the quotas of various exporting countries irritate the exporters and introduce uncertainty about the future market, which results in variations and fluctuations in price, thereby defeating the very end for which it was started. One advantage of the tariffs over quotas is that producers in the exporting countries can adjust their production to the changed tariff in the long run, but sudden changes in the quotas

involve more serious strain both on the producers abroad and on the administrators at home.

It has been pointed out most emphatically in many international conferences that sudden changes in the tariff are most harmful to international trade. If that is so, the objection applies with greater force to quotas. It is clear from the working of quotas in the various countries that those who advocated them for planning international production were suffering from very serious delusions. In theory quotas are an excellent device to stabilise prices. But this assumes that there are cut and dried channels to measure the future demand, and that the supplies flow constantly and smoothly. But is that so in practice? An error in estimating the supply of beef would take almost five to six years to make good. "The change in the beef supply of the United States, Australia, and possibly the Argentine, occurs eight years after the original incentive to change takes place. High beef prices increase market receipts about eight years later; low beef prices cause a decrease in market supplies about eight years later."[1]

As a large number of statesmen suffer from delusions regarding the possibilities of "Government Economics" to solve the problems which have been aggravated by their quack remedies, we take the liberty of quoting at some length the opinion of no less an expert body than the Economic Committee of the League of Nations. Discussing the value of various devices which have been adopted in different countries for the control of prices, the Committee remarks "Imports can certainly be reduced by means of increased duties, surtaxes, prohibitions, quotas, restrictions on foreign exchange—even so there is a limit which must not be exceeded—but this reduction is inevitably accompanied by a contraction of exports. "At the present time (June 1931) the majority of agreements tend to restrict rather than to increase reciprocal advantages, and some even appear to sanction explicitly and in advance the reciprocal rights of the

(1) Astor and Murray, op. cit. p. 124.

parties to harm each other. Moreover, certain of the most recent agreements are based on reciprocity, whereas, until recently, the most-favoured nation clause was, we might say, the basis of all commercial treaties. Even when advantageous treaties are still in force, the guarantees which they contain become illusory as a result of the unforseseen measures introduced to meet the crisis. What is the use of a consolidated duty if an exchange surtax is imposed? What good is freedom of trade guaranteed by the treaty but actually abolished or reduced by protections or quotas? What becomes of all the guarantees in the best treaty if buyers cannot obtain the foreign exchange necessary to pay for their purchases? Finally what remains of this equality of treatment which the most-favoured-nation clause was designed to ensure? "

The Economic Committee considers that although in some cases exceptional conditions may necessitate the application of the quota system, it should be a purely temporary expedient. Pending its disappearance, it is in any case essential that it should be attenuated in every possible way."[1]

Import Licences[2]

Under the system of import licensing the commodities affected can only be imported by those persons who obtain a licence from the Government. There are various purposes for which the licensing of imports is practised. In many cases they are used to secure the enforcement of quotas, milling restrictions, and the like. A serious objection to the system of import licensing is that it is liable to lead to political corruption and favouritism on a vast scale. There is not much which can be said in its support except when it is done at a period of grave crisis. But as a measure of permanent policy it is to be condemned. The Irish Free State is one of the leading

(1) Report of the Economic Committee quoted by Astor and Murray, op. cit. p. 125-26.

(2) The following countries have import licenses: Australia, Austria, Belgium, United Kingdom, Bulgaria, China, Colombia, Czechoslovakia, Denmark Ecuador, Esthonia, Finland, France, Hungary, Japan, Latvia, Lithuania, Netherlands, Norway, Poland, Union of S. Africa, Spain, Switzerland, Tunis, Turkey.

countries where this system is followed on a rather extensive scale.

State Import Boards[1]

An Import Board is appointed by the Government to control and regulate the import of any commodity. The Board possesses all the privileges of a complete monopoly. State Import Boards have been the chief plank on the Labour platform in Great Britain. The idea underlying the establishment of Import Boards is to protect the consumers against the fluctuation of prices and to assure a stable price to the home producers. It is a short step towards State Socialism, and has the disadvantages of that system. An increasing stress has been laid in many continental countries on using such boards for raising the internal price. Owing to its power to control the imports, the Board can raise the prices in the home markets. In a number of European countries there are state tobacco monopolies. They serve three purposes:—

1. Restriction of imports.
2. Regulation of domestic production.
3. Collection of revenue by indirect taxes.

The objections which apply to the system of import licensing apply with double strength to the system of state monopolies. They are more liable to corrupt influences than the licensing system. Bureaucratic control of industry is liable to result in red tape and inefficiency. Government officers who are divorced from actual business experience and are not responsible for any losses are no substitute for industrial leaders whose very lives have been linked up with their enterprises. "The manager's restless pillow has done more to advance the practical arts than all the legislation in the statute books." If there were no other reason, this is the justification for the competitive system, for without the constant renewal of leadership our increasingly complex civilisation will cease properly to function. Moreover, in

(1) World Economic Survey. 1935 op. cit. 189. There are State Trading Monopolies in U.S.A. and Iran, while import monopolies of particular products exists in Bulgaria, Chile, Esthonia, Finland, Germany, Greece, Italy, Lithuania, Manchuria, Netherlands, Norway, Poland, Sweden, Switzerland, Uruguay, Yogoslavia.

a broad way the only individuals who can successfully conduct these millions of organisations which we have created to carry on our daily life are those who have a self-interest in the results from them by their own worth."[1]

The setting up of State Import Boards is also likely to result in more intense friction that the quota system, and is likely to produce ill-will in other countries.[2] " Men can haggle with each other in the markets of the world and there is no ripple in the international good will, but when governments do the haggling the spirit of antagonism between the people is thrice inflamed."[3]

Exchange Control and Currency Restrictions

The competitive race of depreciation of currencies which started in 1931 has been considerably responsible for the downward trend of the curve of international trade. In the sphere of world currencies it has exerted its pull in two directions. The currencies on the gold standard in order to save themselves from severe financial drains have taken rapid steps to control their exchanges and thereby to regulate the imports of the country according to the funds available, while in countries with depreciated currencies steps have been taken to prevent a further decline in the value of the currency and to make available the necessary funds to meet foreign obligations. The situation in itself is due to the economic conditions which prevailed in the summer of 1931. There had been a great decrease in international trade and a tremendous fall in the price level of agricultural and other products. The financial horizon was also getting very dull owing to heavy clouds of uncertainty in the financial world. Creditors were getting scared, and there was a heavy demand for the withdrawal of their funds from the debtor countries, especially from Germany. Consequently

(1) Hoover, Herbert. The Challenge to Liberty, op. cit., page 30.
(2) For details see Astor & Murray, ''Land and Life'' Chapter IX.
(3) The system of exchange control in one form or the other exists in the following countries: Argentine, Australia, Belgium, Bolivia, Brazil, Bulgaria, Chile, China, Colombo, Czechoslovakia, Denmark, Ecuador, Esthonia, Germany, Greece, Hungary, Indo-China, Iran, Italy, Japan, Latvia, Luxembourg, Mexico, Norway, Paraguay, Peru, Poland, Portugal, Roumania, Salvador, Spain, Turkey, U.S.A., Uruguay, Venzuela, Yugoslavia.
(4) Hoover, op. cit. page 102.

the governments of the debtor countries were compelled to take steps whereby their nationals could be compelled to restrict their liberty to send their money to foreign countries, hence the regulation of exchanges. This affected the creditor countries too. For various reasons, Great Britain was threatened with a financial crisis, and though it was able to avoid a severe crisis, it had to abandon the gold standard, and its example was followed sooner or later by various other Empire countries and those foreign countries which had increasing trade connections with Great Britain and depended on its market for the export of their products.

Exchange Regulation[1]

The regulation of exchange is an alternative to currency depreciation and is also used to make available a sufficient amount of funds to meet foreign obligations. This process has no limit. Every step which is followed in tampering with the general laws of economics leads a step further towards regementation and greater economic control by the State, and ends in complete control of human liberties and undermines initiative. Its economic results are also not so rosy as its advocates expected in the beginning. Studying the case of Germany, we find that in 1934, all foreign exchange dealings and all imports were subjected to control with the idea of establishing an equilibrium between foreign imports and the funds available from the export of German products to foreign countries. The ultimate aim of this policy of rigid regimentation and economic control was that the passive balance should be turned into a permanent active balance of commodity trade. And what was the result? "Twenty-five supervisory officers have been created to regulate imports according to the foreign exchange available and to re-organise Germany's distribution of trade. These are shortly to be supplemented by measures to regulate export. Since June 1934, however, Germany has negotiated numerous commercial agreements, and, despite the great activity displayed in seeking

(1) For detailed study of the problem see Ernzig, Paul. Exchange Control.

new trade outlets by barter agreements, her imports in the first quarter of 1935 have fallen by 13 per cent., and her exports by 10 per cent., compared with the first quarter of 1934, despite the inclusion of the Saar from February 18th, 1935."[1]

The story of Italy's regimentation is also as sad as that of Germany. In spite of similar developments and strict regimentation and control of imports her trade is decreasing and her passive balance is increasing.[2] The example of Germany and Italy is followed by many other countries with some variations and less severity according to their circumstances. It is no wonder that international trade has suffered so terribly through this almost universal policy of meddling and tampering with economic laws. In some countries the control of foreign exchange is so rigid and complete that the import trade has been almost brought to a standstill.

The principal drawback in the system of exchange control is its use as a weapon of discrimination between countries which leads to disharmony in the sphere of international relations and is highly detrimental to international trade and world recovery. The present depression has been actually accentuated by such policies. In many cases the administration of exchange control is carried on with great discrimination without any publicity, as it is a matter of administrative decision. The rules for the allocation of exchange are laid down on broad principles by the legislatures, and are of such a vague nature that they leave great powers in the hands of the executive to work them out and their decisions are very often arbitrary, and from them there is no appeal. The principle of uncertainty is also introduced and makes it hard for the countries exporting similar products to know whether they will get similar treatment or not. Many countries are following an open policy of controlling exchange transactions in such a way as to favour those countries that buy from them. The result of this policy

(1) World Economic Survey, op. cit. p. 188.

(2) In this statement no account has been taken of the period in which sanctions were imposed against Italy.

has been that a system of clearing agreements have come into operation.

Clearing Agreements

The system of clearing agreements usually provides for the following mechanism of payment between the two countries which are parties to it.[1]

A person in country A importing goods from country B makes payment for them in the currency of A to the national bank of A; the latter credits the payment to the national bank of B, which in turn pays an equivalent amount in the currency of B (according to the rate of exchange stipulated in the clearing agreement) to the exporter. Similarly, for goods shipped from A to B, payment is made by the importer to the national bank of B, which credits the amount to the national bank of A, and the latter then makes the payment to the exporter. The national bank of A, however, will not pay exporters to B more than importers from B pay to it; and similarly with the national bank of B. Thus, if the exports of A to B are greater than its imports from B, a part of those exports will not be paid for, except, possibly, in blocked accounts. The result of this policy of clearing agreements is that they have been the chief instruments in restricting international trade instead of helping it. An interesting example of the working of this complicated system is given in the "Financial News." "The paradoxical result of their (quotas and clearing agreements) joint action was particularly well illustrated during 1934 by the French trade statistics. Clearing agreements designed to ensure the collection of debt service tempted French exporters to sell more to the countries concerned, while those countries were able to sell less to France. Thus exports to Germany rose from 1,714 million francs to 1,979 million francs, while imports fell to 2,218 million francs. The balance of trade was such as to enable the French authorities to collect interest on the old debt, but new

(1) See World Trade Barriers to American Agriculture. Senate Document No. 70. 73rd Congress, page 67, Washington 1933. op. cit.

commercial debts were incurred by German importers to an amount estimated at 500 million francs."[1]

The detailed results of the working of the clearing agreements have been published by the League of Nations.[2] The Committee was of the opinion that the "immense difference between the spontaneous, automatic, almost unconscious, clearing of debts and claims, generally through the machinery of banking, almost without the importer and exporter realising it, and the obligatory and necessary bi-lateral clearing system as we see it applied as at present." The system operates "to the prejudice of third countries, and reverses trade currents to the disadvantage of countries with weak currencies—whereas exactly the opposite process would be necessary to restore the position of a country which is both an exporter and a debtor." Moreover, "the general tendency of clearing agreements is constantly to reduce the volume and value of international trade and to subject it to forms of restraint that necessarily hamper its development."[3] However, most governments apparently seem to be alive to these objections, but nothing could be done to mitigate the evil unless the root cause—exchange control—is eliminated and the Committee recommended the progressive abandonment of such controls "so that national currencies can once more perform their natural function, which is to be exchangeable without any limitation for all other currencies, and through them for goods."

BILATERAL TRADE AGREEMENTS

A. New Developments in Commercial Policy

Another serious restriction to international trade which is of recent birth is the policy of bi-lateral trade agreements, which is contrary to all commercial and political contentions of the pre-depression period. The great bulk of trade in the post-war period was carried on triangular or multi-lateral trade basis which had due consideration of elementary facts of economics and

(1) Financial News, May, 21, 1935.

(2) An Enquiry into Clearing Agreements. Document No. C. 153. M. League of Nations, 11. B.

(3) Enquiry into Clearing Agreements, op. cit.

geography. The international and territorial division of labour was based on the sound principle of comparative costs and relied on years of experience. An interesting case of triangular trade is given by the Review of World Trade and in view of the importance of this most fundamental trade channel we take the liberty of quoting at some length. "Denmark's imports of fodder from cereal producing countries and of industrial products from Germany are being paid for by exports of bacon and dairy products to the United Kingdom. Germany has a large trade deficit with overseas countries on account of the primary products she requires, but depends upon the European market for her exports of manufactured articles. Belgium and Czechoslovakia are net importers of raw materials from overseas countries and of industrial products from Germany, but net exporters to several European countries. Poland is also a net importer of various raw materials from India, Australia and the Argentine, but a net exporter of foodstuffs, timber and coal to various European countries, particularly the United Kingdom and Scandanavia. Egypt acquires an export surplus in her trade with the United Kingdom, France and a few other great consumers of the long-staple Egyptian cotton, and employs this surplus in purchasing from other countries which are well suited to meet her special requirements. India has to make large debt payments in the United Kingdom; but the export surplus required for these payments is not obtained in trade with that country (India has, in fact, an import surplus with the United Kingdom), but with other consumers of Indian products in all countries. The United States have normally a large surplus of exports to Europe which is only partly offset by her payments to Europe on account of tourist expenditure and emigrants' remittances; before 1929, a large share of this export surplus was employed in financing the United States imports of raw materials from, and loans to, other countries."

"It would be easy to continue this enumeration. There are, in fact, few countries in the world that are not

dependent upon their sales to certain countries in order to meet their requirements from others. Moreover, the share of each country's trade involved in such triangular transactions represents in most cases the most elementary and necessary share; the exchange of manufactured articles for primary products."[1]

It is very deplorable to note here that post-depression politicians have ignored these simple fundamentals of triangular trade and an increasing number of bi-lateral trade agreements have been signed to facilitate trade between the respective countries. "Between October 1st, 1934 and April 1st, 1935, there were sixty-seven important bi-lateral trade agreements, apart from numerous clearing and compensation agreements. During the same period, a great variety of decrees were issued, extending import-licence system, altering quotas, tightening exchange controls instituting export licences and establishing state monopolies of certain imports."[2] In view of these multifarious restrictions and this "Government Economics," there seems little hope for the solution of the world's trouble. "The extension of bi-lateral clearing agreements and reciprocal trade treaties has diverted trade, particularly in Europe, from economic to "treaty" channels. Trade is regulated less by price differentials and more by political bargaining.[3]

Currency Depreciation

Another device which has been increasingly followed in the post-depression world is that of (in many cases deliberate and willing) depreciation of currency. The desire in following such a course is to correct the visible balance of trade by encouraging exports and discouraging imports. A country with a depreciated currency is the cheapest market to buy in, so the exports are encouraged, and by means of a fall in the purchasing power of currency it becomes expensive for the nationals of that country to buy imported products. So imports are

(1) League of Nations Review of World Trade, 1934. Geneva, 1935. pp. 6-7.
(2) World Economic Survey, 1935. Page 187, op. cit.
(3) Ibid, page 181.

naturally discouraged. It is an excellent measure to encourage exports and is a valuable device to increase trade provided the policy is followed by a few isolated countries, who have been compelled to take such a step due to their peculiar circumstances, but the game is not worth the candle when a competitive race of currency depreciation is started by various leading countries and the result is that instead of encouraging, it discourages exports and seriously undermines world trade. Once the race starts there is no limit to its end. Once a country follows the example of others the whole morale of the business world is corrupted by non-confidence. The sudden abandonment of the gold standard by Great Britain accelerated rather than retarded the decline of world business activity and international trade. Its example has been followed by various other countries and it is alleged that Great Britain is also responsible for the abandonment of the gold standard by the U.S.A. "The severity of the banking situation in the fall and winter of 1931 was in some considerable degree due to the effects of the abandonment of the gold standard by Great Britain." For creditors in France and other gold-standard countries who had funds on deposit in New York, withdrew these funds in the fear that the United States might follow the example of Great Britain. This was in considerable measure responsible for the "rush for liquidity" on the part of the New York banks, the repercussions of which were felt all over the country.[1]

The gold-standard countries have retaliated by imposing special restrictions on the import of goods from countries with depreciated currencies. Another uncertainty which disarranges international trade in a world of disturbed currencies is the uncertainty of any further depreciation and the fluctuations in the rate of exchange. An exporter who is on the gold standard, when he ships goods to an importer in a country not on the gold standard, is never certain what will be the value of payments which he would receive for the goods exported. There

(1) World Trade Barriers in Relation to American Agriculture, op. cit. p. 70.

can be no reliability or certainty of contracts under such circumstances. The same difficulties apply to the exports from countries not on the gold standard. "Unwilling as politicians and administrative authorities may be to recognise the essential unity of the world economic order, in spite of the strength of nationalistic sentiment and in spite of the active steps now everywhere being taken to divide the world into watertight compartments, that unity persists. It manifests itself in the monetary sphere by one simple but overwhelmingly important circumstance: it is impossible, intellectually, economically or politically, to divorce the probable future of anyone of the groups from the probable future of the others."[1]

Currency stabilisation, and some dependable and stable international denomination of value, are absolutely necessary to business recovery. It is in the interest of world trade and all the nations concerned that this competitive race of currency depreciation should be stopped as it has run more than its course and efforts should be made for the re-organisation of respective national currencies. The recent triple currency stabilisation agreement between France, the United Kingdom, and U.S.A. is a sign that the wind is blowing in the right direction and shows that the appropriate time has arrived to stabilise world currencies.

SECTION II
MEASURES ADOPTED TO CONTROL EXPORT PRICES

B. EXPORT PRICES

Export Aid and Restrictions

Like the regulation of imports which we have described in the previous section, export aids and restrictions are applied in many countries of the world for two main purposes: (1) to assist particular industries, (2) to maintain a favourable balance of trade. In the case of the regulation of imports the idea of achieving a favourable visible balance of trade is expressed in the form of

(1) T. E. Gregory. Currency Stabilisation and Business Recovery. Address to the International Chamber of Commerce, Paris, 1935.

a decrease both in the quantity and value of imports, while in the case of exports it is expressed in the form of a decrease in the price of exported products and an increase in their quantity. We have mentioned in the previous section that there are four principal measures which are taken to achieve this end. We shall enumerate them here again and shall discuss them individually.

Measures Taken to Increase Exports or the Value of Exports

(1) Through commercial agreements.
(2) Through dumping.
(3) Through regulation of production designed to improve or standardise the quality.
(4) Through restrictions of quantity of exports with a view to increasing the price of the controlled products in the markets of the world.

Export Aid Through Commercial Agreements

In almost every country of the world exporting industries are interested in the reduction or lowering of barriers for international trade. But owing to the intense policy of economic nationalism followed by a large number of countries and the severe impact of the economic crisis which has led to the raising rather than to the decreasing of these barriers, the exporting industries have suffered a great loss. Consequently they have put increasing pressure on their respective governments to find some outlet for their products. In a world where economic forces have been severely tampered with by desperate governments, the ordinary laws of comparative cost and territorial division of labour do not work very smoothly. In order to solve the problem of surplus population and to find an outlet for their products the governments are trying to seek markets in other countries through diplomatic channels. The policies of even highly protectionist countries are influenced by political considerations in forming such policies for seeking export markets and due consideration is given in commercial treaties to the favourable treatment of their exports in other countries. Practically every country in the

world recently made some sort of treaty in which the contracting countries have undertaken to limit their rights for raising the tariff barriers in exchange for similar concessions from the agreeing country.

There are three kinds of concessions which are made in commercial treaties. One kind of concession consists in charging reduced duties to the contracting country for its exports in exchange for similar concessions from the exporting country. Such reduced customs duties are generally called conventional duties. For example, France in its commercial treaty with Germany in 1927 undertook not to impose duties exceeding a certain previously agreed limit on German products, while Germany made similar concessions to France. Such concessions are not of an exclusive nature. By this agreement France was not debarred from granting similar concessions to other countries for commodities for which it had granted concessions to Germany.

The second type of concession which is made in commercial treaties is exactly of the opposite nature. The agreeing countries definitely pledge their right not to give a similar concession to any other countries except those signing the treaty. Products from other countries may be admitted at a rate higher than those rates which are imposed on the products of agreeing countries. A conspicuous example of such agreements are the Imperial economic preferences and the agreements that were signed between various Empire countries at Ottawa. Another example of such an agreement is reciprocity treaty between the United States and Cuba.

Much hope was pinned on such agreements as a means of reducing the barriers in international trade. At Ottawa representatives of various Empire countries declared that it was going to be an example to the other countries of the world to encourage reciprocal trade by an all-round reduction in duties and a wide programme of general reduction in trade restrictions. But the working practice of these agreements has been rather dis-

appointing as far as international trade and the reduction of general staff level is concerned. Most of these concessions are granted not by lowering the tariff but by increasing the tariff on the goods of the non-Empire countries. Arrangements like these impose a burden on countries which are outside the ambit of these agreements. Before the world crisis such concessions were of a very limited nature and the third type of agreement —the unconditional most favoured nation agreement— was almost universal.

The unconditional most-favoured nation clause implies that if any special concession is given by one country to another country, it automatically applies to countries which have such treaties with the country granting the concession. For example, the United States of America had a most-favoured nation treaty with Germany which came into opeartion in 1925. Accordingly, if Germany granted any special concession by way of a lower tariff to any country it also automatically applied to the United States.

The unconditional most-favoured nation clause existed as a bulwark against the forces of commercial discrimination and safeguarded the interests of various exporting countries with the least amount of interference of liberty in commercial affairs. The purpose of this clause was to discourage the agreeing countries from allowing concessions of the second type to other countries. It is deplorable to note that the tendency in the commercial agreements which have been signed during the depression period is away from this trend, and treaties for commercial concessions are being signed which are based either on geographical propinquity or else on political relationships. An example of treaties based on geographical propinquity is that of the Baltic countries. In such cases it is understood that the most-favoured nation clause shall not apply to other countries than the Baltic. It is stated in the case of the treaty between Esthonia and Great Britain that the British Government will not claim the benefit of any custom

preferences or other facilities of whatever nåture, which are, or may be granted by Esthonia in favour of Russia, Finland, Latvia, or Lithuania, in regard to the goods of these countries, so long as such preferences are not extended to any other foreign country. The conspicuous example of such favoured treaties based on political relationships is that of Great Britain and all countries in the British Empire which has been already mentioned.

The policy of making commercial treaties has undergone considerable change during recent years. Governments have been more and more reluctant to commit themselves to the limitations which they are prepared to impose on themselves regarding the limitation of their power for raising tariff barriers and other import regulations. As a matter of fact the tendency is in the reverse direction. They are trying to get rid of the limitations which have been imposed on them by various treaties by either cancelling the old treaties or by making new ones in order to obtain freedom of action as regards control of imports. The treaties which have been signed in recent years give the governments concerned greater powers in regard to the control of imports in comparison with the older treaties. "In fact in the last two years countries have been making numerous agreements with each other which for the most part provide for the exclusion of another's goods from their market."[1]

Increasing use of quotas and other new import restrictions has been made in recent years to escape from treaty obligations. Treaties require some time to be terminated, as most of them contain clauses by which it requires several months' notice before a treaty can be terminated, and the way to escape is found by tightening other forms of economic control. The conspicuous example is that of France. At the beginning of 1933, the French Government was prevented by its treaty obligations from raising further duties on imports from various countries, and it is generally assumed that one of the

(1) World Trade Barriers in Relation to American Agriculture, op. cit. page 74.

principal reasons for the extensive employment of French quotas is due to the inability of France to do anything else owing to her treaty obligations.

It is now engaged on a wholesale programme of treaty revisions which began in 1933 and in the new treaties the Government has taken powers in its hand which were lacking in the previous treaties.

It is very deplorable to note that governments are less and less willing to make general extensions of commercial privileges through the most-favoured nation clause. On the other hand, efforts have been made during recent years to exclude this important clause—a clause which was responsible during the pre-war period for general extension of privileges and acted as a bulwark against Government discrimination against other countries. And in its efforts to improve the balance of trade each country is trying to buy from another country only as much as the other buys from it. The result of such a policy has been the diminution of triangular and multilateral trade to a great extent. The advantages of the territorial division of labour and comparative cost have been denied and instead, a great paraphernalia of quotas, import restrictions, anti-dumping measures and clearing agreements have come into great prominence and are playing an increasingly important part in the world economy. The most-favoured nation clause has been replaced by an opposite policy of bi-lateral treaties and clearing agreements.

This confused policy of various governments is due to the severe economic crisis with which they have been faced almost unawares. Nobody could imagine in 1928 that such severe times were ahead and consequently no special provisions were made in the treaties signed before that period. But when the crisis came, it took most nations unaware and they were threatened with very serious consequences. They had to face hosts of urgent problems. The economic crisis was coupled with a financial crisis in most countries and many governments in haste did anything that it was possible to do hastily.

In so short a time, no new treaties could be negotiated or the existing ones cancelled without sufficient notice and a way of escape was found by applying all these restrictions which we had described in the previous pages, and some more which we shall discuss later. It is clear that the present restrictionist policy is not well conceived and many governments do not know where it is going to lead them. The policy is neither clearly thought of, nor is it a result of any long-time view of the world situation. But there seems little hope of its abandonment in the near future, although some signs are apparent of the realisation of their bitter experiences by meddling with economic laws which have come home to various governments.

On the whole, the present world policy is drifting more and more towards regional tariff agreements of an exclusive nature rather than towards triangular trade. In European countries there has been a new tendency towards an inter-European customs union. This is more an ideal than a matter of practical politics at the present moment; but signs are not lacking to show the current along which the wave of European politics has been moving. There is a general tendency in the industrial cultural countries of Eastern Europe in exchange for their countries of Western Europe to grant preference to agri-products at similar terms of treatment. It has not been possible to achieve great success in this direction, due mainly to the fact that other nations who have most-favoured nation treaties with these countries are not prepared to sacrifice their claims for similar treatment to which they automatically become entitled under these treaties. This is another reason why there has been so much disgust with this clause in Europe. The matter has been discussed in many international conferences but the problem has not been solved. Nevertheless, some agreements have been signed whereby industrial countries of Western Europe have granted concessions to the agricultural products of East European countries. For instance, treaties have been signed by Germany with

Hungary, Rumania and Bulgaria, whereby preferential treatment has been given by those countries, but it was not possible to put this into practice as the treaties made conditions that other countries who had a most-favoured nation clause with Germany should not make their claim, which end has not been possible to achieve. The ambitious hope of the United States of Europe seems far from possible to attain in the near future.

Export Dumping

There are various forms of dumping, but we shall confine ourselves to international dumping only. Dumping when confined to international markets means the selling of goods in the export markets at less than the price prevailing in the country of origin, with due allowance for cost of transport and other such necessary expenses.

The Nature and the Economic Effects of Dumping

Dumping is another weapon which the supporters of a surplus balance of trade have increasingly employed to achieve their desires. There are various ways by which dumping is encouraged by the governments concerned. Dumping of agricultural products is effected in some cases either by an export subsidy—direct or indirect—or by setting up monopolies of export which charge higher prices to the consumers at home and lower prices to the export markets. The result of either of these two ways of dumping is a higher price charged to the consumers at home than that prevailing in the markets of the world. In some countries this policy has been followed to raise the price to home producers. This is generally accomplished by a dual system of imposing sufficiently high duties on the import of such products and by putting a levy for consumption of the product at home. The difference between the home price and export price is generally paid to the home producers.

There is a serious drawback to this system. As long as production is not controlled, it is more than likely that it will increase and thereby damage the price to the producers at home, as there is a definite limit to the consumption in the home market and the increased

production must be sold outside the country at world prices. The constant use of this measure has resulted in retaliation from the importing countries whose economy has been very seriously disturbed by cheap imports against which producers in their own country are unable to compete. The lowering of the world price which results from dumping strengthens the hands of the importing countries in using various retaliatory measures to check this flood, and the psychological effects of the fact that other countries are underselling and thereby causing unemployment lends popular support to the democratic governments to continue their policy of self-sufficiency. Public opinion is particularly sensitive to dumping and it is interesting to note that with increasing hostility towards dumping, it has been used more and more by giving increasing amounts of bounties and subsidies in the exporting countries. The burden of such aids falls heavily on the exchequer and results in increased taxation. Here we shall give example of a few countries to show how subsidies have been greatly increasing.

Federal Subsides in Switzerland, 1929-1934[1]

Francs 1,000,000

Year	Total	Agriculture
1929	77	22
1930	95	36
1931	120	39
1932	139	49
1933	193	91
1934	211	—

In the United Kingdom, increasing use of subsidies has been made in recent years. The following is the estimate of subsidies given during 1934. Since this estimate was made further subsidies, especially on beef production, have been authorised.[2]

Sugar	£3,250,000	Milk	£1,500,000
Wheat	£4,500,000	Beef	£3,000,000

(1) World Economic Survey, 1934-35. op. cit. page 85.
(2) Midland Bank, Monthly Review, August-Sep. 1934.

The result of such subsidies is not only that they impose a heavy burden on the national exchequer, but they also tend to create permanent vested interests. Subsidies which are once put on are very difficult to withdraw later owing to the serious opposition of vested interests. An interesting example is offered by the British sugar-beet subsidy. After subsidies amounting to £39,000,000 in ten years, the industry employs only 32,000 workers, and the Royal Commission which was appointed to investigate the matter definitely recommended that the subsidy should be withdrawn. But it was not possible for the government to do so as it met with strong opposition. On the contrary other industries began to clamour for such help. The English Milk Marketing Board was faced with the problem of an over-supply of milk and demanded state help.

Failure of Dumping to Achieve its End

Dumping is a great menace in the world markets as the example of one country is generally followed by others, and the likely result is further depression of the world price level. Consequently the first country which started dumping with a view to giving increasing benefits to the home producers is affected by a decrease in the world price level and thereby its share is decreased and the very purpose of the dumping becomes fruitless. An interesting example to show the international effects of dumping is afforded by the case of German rye. For some years preceding February 1930, Germany gave some financial assistance to the exporters of rye. This assistance was given in the form of import certificates which were issued to rye exporters, but were accepted for the purpose of import-duties on certain products which were imported into Germany. So these certificates were freely bought by the importers from the exporters of rye at practically their face value. Due partly to this dumping and partly to other reasons, the price of rye fell considerably in the Scandanavian countries—the chief market for the export of rye—and increasing restrictions were imposed by these importing countries

on the import of rye, especially by Sweden. In November, 1929, Poland followed the example of Germany and made similar provisions for the export of rye. The result of this competitive dumping was that the price of rye fell very considerably and Poland and Germany were compelled to sign an agreement to limit their export of rye and to maintain a minimum price. The added factor of Russian competition made the matter worse and Germany which was already facing a serious drain on its treasury had to retire in 1930 and ceased to give any subsidies. The experiment was officially terminated in 1931 with a frank admission of defeat.

Another ingenious method of dumping which is known as the Hungarian Boletta or grain-ticket system was practised by Hungary before 1932. According to this system every dealer who purchased wheat from a farmer had to purchase at the same time grain-tickets from the Government to the value of 42 cents for every bushel bought. A part of this ticket worth 29 cents was given to the farmer, who was allowed to surrender it to the Government in payment of taxes, or was allowed to encash it; the other part was retained by the dealer or passed on to other dealers to whom he sold the wheat. If the wheat was exported, the dealer's part of the ticket was resold to the Government, but if the wheat was consumed in the country, the ticket was finally surrendered to the Government without any compensation. In essence these tickets were used to tax the home consumers of wheat and to render relief to the growers of wheat from the proceeds realised from the consumption of wheat in Hungary. With the shortage of the wheat-crop in 1932, the system fell into abeyance.[1]

Sliding Scale Bounties

Like the sliding scale import duties, sliding scale bounties are given to enable the domestic producers to receive a stable price, in contrast to fixed bounties which enable him to receive an increased price. The system of sliding scale bounties is, for instance, in existence in

(1) For details see pages 400-404. World Trade Barrier, op. cit.

Portugul. The Portuguese Government pays such duties on the export of cotton from Portuguese East Africa. The rate of bounty is equal to the difference between the average monthly market price and a fixed price of 8 escudos per quintal. Thus the exporter is guaranteed a minimum price of 8 escudos. Egypt pays a similar bounty on the export of beans.

The results of hosts of these dumping measures have been a serious dislocation of the international trade and a great divergence in the price of the same commodity in different countries. We will take the case of butter to show the extreme variation in the retail prices, which has been accentuated by the payment of bounties and other restrictive measures.

Average Retail Price of Butter, October, 1934

(Swiss Gold francs per Kilogramme).

Importing Countries		Exporting Countries	
Canada	1.70	Esthonia	1.03
United Kingdom	1.72	New Zealand	1.40
United States	2.24	Finland	1.77
Czechoslovakia	2.27	Denmark	1.79
Belgium	2.75	Poland	1.80
Italy	3.03	Yugoslavia	1.87
France	3.55	Australia	1.90
Germany	3.79	Latvia	1.93
Spain	3.79	Sweden	2.05
Switzerland	4.75	Hungary	2.10
		Norway	2.20
		Irish Free State	2.34
		Austria	2.36
		Netherlands	3.48

The foregoing table shows a great divergence in the prices of butter not only in the importing countries where it is due to import duties and other restrictions, but also in the exporting countries, which is principally explained by the existence of bounties and subsidies given to the home producers to dump their butter in the foreign countries, while the losses are borne by the consumers at home. There is a difference of 316 per cent. in the price of butter in Esthonia and the Netherlands—both exporting countries—and a difference of about 30 per cent. in the

price of butter in Canada and Switzerland—both importing countries. "These Draconian measures, which quite apart from the disorder they caused in the delicate and complex mechanism of balance of international accounts, tend to create as many different price regions as there are protectionist countries and this delays a return to the essential system of non-watertight compartments."[1]

The inevitable result of this policy of State interference in economic laws has been that consumers have greatly suffered. The fancy retail prices of butter which are charged in various countries make this commodity a luxury which only the very rich can enjoy. The results have not been so serious where the Governments have not made increasing interference in the working of economic laws, but where a policy of Government planning has been pushed too far the results have been very serious. "Were all nations to follow the liberal system of free exportation and free importation, the different States into which a great continent was divided would so far resemble the different provinces of a great Empire. As among the different provinces of a great Empire the freedom of the inland trade appears, both from reason and experience not only the best palliative of a dearth, but the most effectual preventive of a famine, so would the freedom of exportation and importation trade be among the different States into which a great continent was divided."[2]

The increase of duties and various other control measures in the importing countries has resulted in increasing subsidies and export sides from the exporting countries. But in this competitive race importing countries have the better controlling power as they have only to pass a law to limit the imports by various methods which suit their purpose and it is easy enough to get the laws passed at present when the extreme policy of economic nationalism is in favour. But it imposes a serious drain on the Exchequer and the tax payers of the exporting countries have to pay an increasing amount of

(1) Agricultural Protectionism, page 6, op. cit.
(2) Adam Smith, Wealth of Nations.

subsidies to counter-balance the effects of restrictions imposed in the importing country. An interesting example is afforded by the case of the exports of the Irish Free State into the United Kingdom, where penal taxes have been imposed on the imports of various products from the Irish Free State. Though the matter is not economic but political, it still proves the inability of the exporting countries to push through their products against heavy tariffs, even with the help of a considerable amount of subsidies. In June, 1932, the Irish Free State refused to pay the semi-annual instalment for Land Annuities which was due to the U. K. Government. On July 15th, the British Government in retaliation imposed duties of 20 per cent. ad valorem on the principal agricultural exports of the Irish Free State.

These duties were further increased in November, 1932 to 30 per cent. on some commodities and 40 per cent. on others. In order to meet the situation, the Free State Government gave bounties on the export of Free State products to counteract the effects of the British duties. The principal products which were affected by this economic war were live animals, meats, butter, eggs, etc. The British Government has collected more money through the penal tariff than was due to it from the Land Annuities. An increasing use of export bounties is being made by the Irish Free State to increase its agricultural exports. The following figures show the total amount of export bounties paid by the I.F.S. Government during 1932-33 and 1933-34.

Export Subsidies.[1]

Commodity	1932-33			1933-34
	£	s.	d.	£
Cattle	482,428	12	0	729,181
Live Pigs	31,637	0	0	44,018
Pig Products	125,236	13	3	284,332
Dead Poultry	108,527	0	1	143,933
Eggs	40,962	7	10	280,378
Potatoes	3,679	12	11	14,578
Dairy Products	552,985	11	5	1,448,980

(1) Second Annual Report of the Ministry of Agriculture, 1932-33 p. 19. Third Annual Report of the Ministry of Agriculture, 1933-34 p. 23.

Commodity		1932-33	1933-34
Sheep and Lambs, Live	..	No subsidies	44,255
Beef and Veal ..	..	„	11,404
Mutton and Lamb	..	„	22,018
Grass Seeds ..	..	„	713
Horses ..	..	„	1,834
Total	..	345,446 18 4	3,025,619

OTHER INDIRECT METHODS OF DUMPING

Dumping by Means of Monopolistic Organisations

In many countries monopolistic organisations exist for the purpose of increasing the prices to the producers. The system followed by such organisations to effect increased prices to the producers is to charge a higher price in the home market than that to be obtained in the export market. The losses which are sustained by selling in the low priced export markets are counterbalanced by the higher prices in the home market. Such bodies which have monopolistic control of a commodity are generally state or semi-state organisations. Such organisations are generally formed at a period of crisis and are of a temporary nature. Their purpose, is more or less, that of farm relief rather than a permanent settled agricultural policy. A notable exception is the Patterson Butter Plan in Australia which has been working since 1925 and seems to be a permanent policy. It is also one of the few exceptional examples where control in an agricultural commodity has been exercised without Government intervention. All the important creameries in Australia both private and co-operative—have voluntarily submitted themselves to the control of a body—the Butter Export Control Board—which is elected by them. This Board imposes a levy on the production of all butter made in Australia and from this amount pays a bounty on the butter exported.

Although the Australian Butter Control Board is not a government body, it has all the advantages of being one. As a matter of fact without the indirect help of the government—the imposition of a high tariff

on the import of butter—it would not have been possible for Australia to withstand the competition from New Zealand. Moreover, the Commonwealth Government has showed its approval by refraining from prosecuting this body under the anti-trust laws of Australia. The inevitable result of this policy has been that the dairy industry has considerably increased and consequently the rate of the bounty has been lowered. Australia's example has been followed by the Irish Free State and various other countries, viz., South Africa, Sweden, Norway, Finland, etc.

Another example of similar dumping is that of rice in Italy. The National Rice Institute (Ente Nationale Risi), which has been created by a decree of the Fascist Government, has been endowed with extensive powers to regulate all trade in rice. This institute fixes the prices which are payable to the producers of rice and also prescribes a fee which must be paid on the purchase of rice from the growers. This fee is then paid to the exporters of rice by way of a bounty and the amount of bounty varies according to the country to which the rice is exported. For this purpose the export countries have been divided into three categories and a different rate of bounty is fixed for each group. In Group One are classed all those countries in which the Italian rice has to face severe competition from other countries, and the amount of bounty paid by this group of countries is the highest. In Group Three are those countries which are nearer to the frontiers of Italy and where the competition is not severe, consequently the amount of bounty is the smallest. Group Two consists of the middle course.

Export Quotas

Another unique method of dumping is by way of export quotas, which is practised in the Union of South Africa for the export of South African maize. At the beginning of the marketing season the Government determines the proportion of the crop which is to be exported, and every selling agency (including the Co-operative Societies) is compelled to export the fixed quota,

no more and no less. The idea underlying this policy of rigid control is to so fix the proportion of the crop exported that it should create a comparative scarcity in the home market, and thereby raise its price. The big co-operative corn marketing societies, which control a large share of the market both at home and abroad, pay their members the net proceeds of their sale both for the home and the export market.

Subsidies in Transport

Another form of export subsidy is a lower tariff charged by the transport authorities for export products for similar distances as compared with the charge for products destined for consumption in the home market. Various state-owned railways give this form of subsidy.

Regulation of Production designed to Improve or Standardise the quality

Of all the systems of "Government Economics" designed either to control the prices or directed towards achieving national ideals, the laws promulgated to regulate production in order either to improve or standardise the quality of production are perhaps the least objectionable, and if not pushed too far are excellent measures, which can be defended on many grounds. The chief aim of such measures is to improve or to standardise the quality. Standardised quality plays an important part in the marketing of agricultural products, and a country which exports a uniform quality of products does achieve a certain amount of popularity amongst consumers in the importing countries, and thereby such countries are able to realise better prices than their competitors whose exports are not of any standard quality. The standardised product is easier to sell than the unstandardised one, as the consumers are not sure about the quality of an untried product. One of the main reasons for the popularity of Danish agricultural products in the markets of the world is their standard quality, and the Danish Government, in co-operation with the Danish Co-operative Societies, does take a great amount of interest in regulating the export

trade in agricultural products and no product is allowed to leave Danish shores unless it satisfies all the required standards, and is passed by Government inspectors.

The example of Denmark has been followed by various other countries with great success. A system of "national mark" has been introduced in Great Britain to encourage the sale of home agricultural products. "The national mark" carries the guarantee of the British Government as to the excellence of the product so marked.

The system of regulating the exports does not lower the price in the markets of the world and cannot be strictly styled as dumping, but it does take a different form of dumping when the best quality is sold in the export markets, while an inferior quality is sold at the same price in the home market. Sometimes importing countries, who are unable to face the competition of such standardised products, take shelter under legislative protection. The severity of German restrictions on butter is an example. German butter was not able to stand the competition of the excellent Danish butter. In some exporting countries governments impose heavy export taxes on the export of ungraded products in order to discourage the exporting of such products which do not come up to the export standards, and give bounties to products of excellent quality. This is being done in Poland. In Roumania the government imposes a tax on the export of ungraded eggs. In Australia, New Zealand and South Africa there is an extensive list of products which are controlled by various export boards, and the main purpose of such boards is to encourage the export of uniform grades. The dumping element comes in when bounties are given to encourage the export of better grades. The New Zealand Fruit Control Board imposes a tax on the export of low grades of apples and plums and provides a bounty on better grades of these commodities.

On the whole, there is a considerable amount of justification for the governments to take an increasing interest in the export of standardised products and to

pass legislation to that end. This is not only beneficial to exporters but is also useful to consumers. It is easier and involves less waste and risk in buying a product, the quality of which is known, rather than an unknown and unstandardised product. The great gulf between the prices of agricultural products paid to the producers and those paid by the consumers is due to increasing expense in the marketing of such products owing to their lack of standardisation and various other risks of unknown quality. If this gulf is to be bridged—and it is very desirable both in the interests of producers and consumers that it should be bridged—it is absolutely necessary that agricultural products should be standardised.

Since the Great War the problem of marketing agricultural products has come into great prominence and it is rightly believed by many farmers that the major problems of agriculture to-day are marketing problems. Various governments have opened State institutions to provide credit to the farmer for making improvements in his land and for practising intensive agriculture, or for adopting a better quality of seed. But these measures are of little use to the farmer if he is unable to realise a better price for the better product which he produces with the help of state loans. Better grading and better marketing of agricultural products would help the farmers far more than hosts of other laws and measures designed by Governments to interfere in private enterprise.

Export Restrictions

Experiments by various governments for restricting exports in order to raise prices have failed in the long run in various parts of the globe. Japan tried to fix the price of silk. In spite of its efforts the price fell from 16 cents a pound in 1920 to 2 cents in 1930. Japan's efforts were nullified through an increase of production in other countries. The Stevenson rubber restriction plan shared the same fate. The prices did rise for a short time but the final collapse was worse. Before the restriction came

into operation rubber was selling at 20 cents a pound, and after the restriction its price fell to 8 cents a pound. Brazil and Cuba had the same bitter experience in regard to coffee and sugar respectively. The buying of surpluses at prices higher than those prevailing in the markets of the world leads to complications and instead of any appreciable decline in production, the trend is always in the reverse direction except if the restriction is complete and covers all the countries which produce that commodity, while the psychological effects of hoarded surpluses further depress prices. In the United States of America the failure of the Farm Board to standardise the prices of wheat and cotton through the Stabilisation Corporations is a recent lesson to those who pin great faith on such a measure and clearly shows the dangers of trying to raise prices through artificial measures which ignore the factors of supply and final consumer demands. When such measures are attempted, the inevitable laws of supply and demand must not be forgotten. No programme of stabilisation of prices is likely to succeed ultimately unless supply is curtailed to demand, or efforts are made to increase the demand.

The experience of the wheat and cotton stabilisation corporations have been very bitter.[1] Before the Wheat Stabilisation Corporation began to carry on its pegging activities the price of wheat was $1.16 in Chicago. Thirteen months after the operations of the Corporation the price of wheat fell to 73 cents. Cotton was selling at 18 cents a pound before the pegging operations began. After 12 months pegging the prices fell to 8 cents a pound. "It is our opinion that it had a definitely detrimental effect on exports of American cotton. It created a holding movement. A holding movement dams up or increases the supply, which is a direct cause of decline in prices."[2]

SECTION III

Production Aids and Restrictions

In the previous two sections we have discussed the

(1) For details see the Annual Reports for the Federal Farm Board, 1930-1931-1932. Washington, U.S.
(2) Cotton Review. Oct. 1930. U.S.A.

measures that have been taken by various governments in either controlling imports or encouraging exports. In this section we shall describe the measures of Production Aids which have been adopted in many countries by their governments in order to increase their balance of payments. We shall also discuss the measures which tend to restrict production in order to increase prices.

Production Aids—Direct Regulation of Production

The direct regulation of production has been carried on on a very extensive scale in Soviet Russia. The system of planned economy was introduced with the first Five Year Plan in 1929, in order properly to exploit the productive resources of the country and to make the Soviet Republic free from foreign imports. A very ambitious programme was chalked out by the Soviet authorities and it was intended to complete that programme in five years. In a system like this where the government is the chief controller and producer and there is entire absence of any private enterprise, the question of costs or profits does not arise as a matter of any practical politics. Persons carrying on production do so not at their own risk or incentive but as the agents of the State. The example of Russia is a rather extreme case of state intervention and its desire to increase production. But cases are not lacking in other European countries where states have intervened to encourage or to increase production, although their measures are not the same as those of Soviet Russia.

The Italian government has directed its attention to raising the level of production in the agricultural industry. The wheat battle, which the fascist government started in 1925, is a conspicuous example of State aid increasing production. Between 1921-24 Italy produced 51 million quintals of wheat on 4.7 to 4.8 million hectares of land.[1] The average yield per hectare at this time was about 10.5 quintals per hectare. Every possible effort was made by the Italian Government to increase

(1) Quintal 1.968 cwt.

the production of wheat, and more particularly to raise the yield per hectare. Through widespread propaganda, the increasing use of scientific methods, and intensive methods of cultivation, the production increased from 51 million quintals in 1924 to 75 to 1932, and the average yield increased from 10.5 to 14.5 quintals per hectare. There has also been a great increase in the production of various other agricultural products. Extensive drainage surveys have been carried on to reclaim the land and to settle people on it. The government asserts complete authority over farmers who do not carry out its instructions and actually intervenes in cases where land has not been put to proper and fuller uses. In cases where farmers are obstinate, they are compelled to entrust their lands to local farm associations or agricultural colleges, who manage it on their behalf. In extreme cases the farms are expropriated by the state.

More widespread than the direct control of production is the control of production of a particular crop. There are very few European countries which do not impose such restrictions on the liberties of individual farmers. A conspicuous example of this is the tobacco crop.

The Spanish Government has been trying to increase the production of cotton by giving subsidies to cotton producers. Another example is the ingenious system of the Wheat Act in the case of the United Kingdom, which has already been described, and scores of other examples can be given, but space does not permit this.

The idea of encouraging all production at home is the direct outcome of the policy of economic self-sufficiency and the more popular but mistaken belief of reducing unemployment, which itself is mainly due to the disturbed equilibrium of world economy. Another indirect help in increasing production has been rendered by many countries by providing subsidised agricultural credit. Many countries have opened state or semi-state institutions in order to provide credit to farmers at

(2) Hectare 2.4711 acres.

low rates of interest. Many other countries have not gone as far as that, but have guaranteed the principal and interest of bonds which are issued by many quasi-public institutions in order to obtain funds for making advances to the farmers. The provision of credit for agriculture received special attention all over the world after the Great War. Many European countries which had participated in the War were left with devastated lands, which required an immense amount of capital in order to bring them back to a state of proper cultivation. The large armies that were demobilised after the cessation of hostilities swelled the ranks of the unemployed and as the horrors of sieges and starvations were still fresh in people's minds, it was thought fit and proper to exploit fully the agrarian resources of the country as a safeguard against any future hostilities. It also created an easy avenue of employment for those who had just been demobilised. As a consequence of this policy, a preponderately large number of countries directed their activities towards settling people on the land. But it required capital and under the circumstances there were few agencies who could cater for the needs of these new agriculturists, except their respective governments which had embarked on this programme. So they were expected to provide credit to those newly settled farmers. The bloody revolution of Russia created many difficult problems for the neighbouring European countries. There was a land hunger in all the neighbouring countries and if the appetite were not satisfied by legitimate means the example of Russia would give a great stimulus to landless tenants and small peasants to follow Russia's revolutionary policy. The danger was so great that the governments of neighbouring countries had to embark on a large programme of compulsory expropriation of big landlords and divided their big estates into small holdings in order to satisfy the desire of so many landless people. The result was that landlords who had previously undertaken to provide the finance were removed from the scene and their place had to be taken by somebody else.

The new peasant proprietors had hardly any capital to exploit properly the newly acquired lands. The duty had to be performed by their government. Under the spur of economic nationalism and the provision of liberal credit policies, production in European countries increased a good deal.

Restriction Aids

One can well understand the idea underlying the policy of production aids and other such subsidies in order to exploit fully the natural resources and to create more employment. But the idea of providing money for not doing anything and not producing anything is altogether novel and fantastic. Attempts have been made in various countries from time to time to curtail the supply or impose other restrictions in order to raise the prices, but history gives us very few examples where the government have given direct help to its nationals in order to decrease production. The recent example of a country where the government has spent millions and millions of dollars in order to reduce production and has imposed restrictions on further production, is the U.S.A. Government, which in their New Deal measures, provided for the reduction of acreage of various basic agricultural commodities by making compensatory payments to those farmers who undertook to reduce their acreage of such commodities. These measures are contained in the Agricultural Adjustment Act.

Agricultural Adjustment Act

The Agricultural Adjustment Act which was passed on May 12th, 1933, to relieve the existing emergency by increasing agricultural purchasing power is one of the most revolutionary measures which has ever been passed by any Government, and is one of the most controversial measures of the New Deal which has now been declared as unconstitutional by the U.S.A. Supreme Court. Before we describe the main provision of this Act and examine its working and the results achieved by it, it is necessary to understand the situation which compelled the Administration to pass such a novel measure.

We find that the tremendous fall in land values has threatened farmers with financial disaster and, in many cases, with eventual bankruptcy. It has drastically curtailed the equity of the farmer and has led to a heavy burden of debt, and a decrease in the farmer's power of borrowing and purchasing. This crushing burden has been heavily felt by farmers, because many of them bought their land on a mortgage basis during the period of the War, when prices were soaring very high. The decline in land values becomes quite clear when we study the following figures.

During the decade 1920 to 1930, the index of real estate values for the country as a whole dropped from 170 to 115, or 32 per cent. from the peak. During the three years, 1930 to 1933, the index dropped from 115 to 73, a decline of 37 per cent. On an average, United States farm real estate values as on 1st March, 1933, were approximately one quarter below the pre-war base and somewhat more than one-half below 1920 values.[1] The total value of farm real estate fell from $316,000,000,000 in 1920 to $130,515,000,000 in March, 1933.

This average does not adequately represent the picture for the country as a whole. The decline in the five predominantly agricultural States has been more pronounced.

The fall in land values has disturbed the whole equilibrium and has been responsible for many of the farmers' troubles. There has been a pronounced increase in the number of changes in farm ownership, as not many farmers have been able to meet their obligations, which have increased in intensity by reason of the decline in land values and the fall of prices. The average turnover of land increased from 19.5 per 1,000 in 1920-29 to 54.1 per 1,000 in 1932-33. This represents only involuntary sales which were due to foreclosures, forced sale, sale in bankruptcy, etc. The number of voluntary sales has also increased. The increase in both voluntary and

(1) The Farm Real Estate Situation—Stouber B. R. Circular No. 309 U. S. Deptt. of Agriculture.

involuntary sales has been accelerated owing to a great decrease in the gross income from farm production. During 1932 this income reached the lowest level of $35,143,000,000 according to the available statistics.[1] This was a billion dollars less than in 1908 and half the 1924-29 average, and 26 per cent. below that of 1931.

Disparity between the Prices of Agricultural and Industrial Products

Another main cause of the farmers' discontent is the great disparity in the prices of agricultural products and industrial products even within the U.S.A. as is demonstrated from the following figures:—

Year and month.	Grains.	Fruits and Vegs.	Meat Animals	Dairy Products.	Poultry Products.	Cotton and Seeds.	All groups.	Ratio of prices received to prices paid.	Wholesale price.
1910 ...	104	91	103	100	104	113	103	105	103
1915 ...	120	83	104	98	103	78	100	95	102
1920 ...	231	249	173	188	222	248	205	106	225
1923 ...	156	160	139	137	161	177	147	95	151
1926 ...	129	189	148	136	156	122	136	89	146
1927 ...	128	155	137	138	141	128	131	87	139
1928 ...	130	146	150	149	150	152	139	91	141
1929 ...	121	136	156	140	159	145	138	91	139
1930 ...	100	158	134	123	126	102	117	71	126
1931 ...	63	98	93	94	96	63	80	65	107
June—									
1932 ...	44	82	57	62	59	37	52	48	93
1932 ...	44	71	63	70	80	46	47	33	95
Aug. ...									
1933 ...	81	120	63	72	67	71	72	64	102

The foregoing figures clearly show the disparity between the prices paid by the farmer and those received by him. In 1910 the prices of farm products and farm and household requisites were such that the farmers' dollar was worth 105 cents as compared with the base period. We notice a downward trend from 1925 onward until we reach the lowest point, and the greatest disparity in June 1932, when the farmers' dollar was worth only 48 cents. The Index Number of wholesale prices of all commodities at that date was 93. The factor which has accentuated the depression is that retail prices have

(1) Circular No. 309 page 2. op. cit.

not declined in the same ratio during the period of depression as wholesale prices. In other words the costs of marketing of agricultural produce have not declined as much as they should.

The following table proves this.

Farm value of certain goods as percentages of city retail value, March 1929 and 1933.[1]

Product	Retail foods.	Farm value as percentage of city retail Value.	
		March 1929	March 1933
		Per cent	Per cent
Poultry products (hens and eggs)	Hens and eggs.	66.0	50.6
Dairy products (milk and butter-fat).	Fresh and canned milk, butter and cheese.	53.5	33.8
Meat animals (cattle, hogs, and sheep)	Beef, pork, and lamb.	53.3	37.2
Potatoes and rice	Potatoes and rice	41.0	38.3
Wheat	Flour, bread, and macaroni	23.2	11.1
Average...		47.6	30.8

Decline in the prices of Farm Products

Farm prices of fourteen major foodstuffs fell by 62% from 1929 to February 1933, whereas retail prices of these products fell only 43 per cent. These high marketing costs act as a serious obstacle in increasing the demand for farm products when the income of other classes is also declining. While the lower income received by the farmers compels them to reduce their expenditure on other products it curtails the demand for other products. As a result of less demand many factories have to be closed, forcing an increasing number of people into idle-

(1) Economic Bases of Agricultural Adjustment Act, Dept. of Agriculture. U.S.A. page 23.

ness. Factory labourers who find themselves without jobs and decreasing incomes are compelled to curtail their demand for agricultural products and thus the vicious circle is formed. It is a great tragedy that while millions of farmers are destroying their produce as they cannot find any customers at any remunerative prices (cases are not unheard of where a farmer had to pay a net bill for excess costs owing to transport and other charges, which means that instead of receiving anything he had to pay something out of his own pocket for selling his produce to the market), millions of labourers are underfed.

As already pointed out the main cause of this state of affairs is that the distribution costs have not decreased in any relation to the decline in the prices of farm products. The following figures may be studied with some interest. In March, 1929, the monthly purchases of 14 food products for an average family had a retail value of $25.53. Out of this farmers received $12.14 and the distributing and processing agencies $13.39. By March, 1931, the retail value of the same basket of commodities declined by about $5. The farmer's share was reduced by about $4 and the reduction in distributor's margin was only $1. By March, 1933 the retail value of these products had fallen by nearly $11 from the 1929 cost. Nearly $8 came out of the farmer's share and only about $3 out of the distributor's margin. The farmer's share was only 30 per cent. of the total retail value in March 1933, as compared with nearly 45 per cent. in 1929. Had the decline in retail prices been shared equally between the distributor's share and the farmer's share, the farmer's purchasing power at the beginning of 1933 would have been about 50 per cent. greater than it was.[1]

The Association of Land Grant Colleges and Universities made the following observations on this matter in their report:

> "Certain factors are operating to maintain for some time the disparity between agricultural and

(1) For details see Economic Basis for Agricultural Adjustment Act, page 45. op. cit.

non-agricultural prices—a disparity that now is greater than at any time since 1875. Among these factors are the usual response of agricultural prices to general deflation, as cost of transportation and processing remain relatively high and inflexible; the sharp curtailment in industrial production, such as tends to sustain certain industrial prices and at the same time to increase unemployment and to reduce buying power; the inability of farming to make such a drastic adjustments in output, which creates a condition of relative absence of farm products; the shift in population from cities to farms, which reduces consumers demand for farm products and adds to the total supply of such products and the increased agricultural production all round which tends to maintain an abundance of agricultural products throughout the world relative to the supply of other goods. Still another element in the United States which affects the long time course of demand for farm products, is the slowing down in the rate of population growth. The restoration of former relations between the prices of farm products and non-agricultural goods is likely to be slow and protracted unless certain fundamental developments are hastened."[1]

It was to hasten these developments that the Agricultural Adjustment Act was passed.

THE MAIN PROVISION OF THE AGRICULTURAL ADJUSTMENT ACT

Purpose of the Act

The preamble of the Act clearly states its purpose. "An Act to relieve the existing national economic emergency by increasing agricultural purchasing power, to raise revenues for extraordinary expenses incurred by

(1) Report on the Agricultural situation. Proceedings of the Association of Land Grant Colleges and Universities 1932, page 17.

reason of such emergency, to provide emergency relief with respect to agricultural indebtedness, to provide for the ordinary liquidation of Joint Stock Land Banks and for other purposes."

The job of relieving agricultural indebtedness and the ordinary liquidation of Joint Stock Banks was later entrusted to the Farm Credit Administration.[1]

Declaration of Emergency

It was declared by the Act that the present acute economic emergency was in part the consequence of a severe and increasing disparity between the prices of agricultural and other commodities. And as that disparity had largely destroyed the purchasing power of farmers for other products, had broken down the ordinary exchange of commodities and had seriously impaired agricultural assets which supported the structure, it was considered expedient that a law should be passed to remove these obstacles that were obstructing the healthy development of the agricultural industry.

Policy of the Act

It was the policy of the Act (Agricultural Adjustment Act now defunct, as the Supreme Court had branded it as unconstitutional) to establish and maintain such balance between production and consumption of agricultural commodities and such marketing conditions thereof as are necessary to re-establish prices to farmers at a level that will give agricultural commodities a purchasing power in respect of articles that farmers buy, equivalent to that purchasing power of agricultural commodities in the base period.

The base period for all agricultural commodities (except tobacco) was fixed as the pre-war period of 1909-14. In the case of tobacco it was fixed as 1919-1929. The equality was to be obtained by the gradual correcting of the existing inequalities and the pace was to be quickened with due regard to its effects on the consumers. It was thought the manipulation would take place in such a way that the acreage of agricultural production would be

(1) For details see my book "Agricultural Credit". Pitman & Sons, London, 1936.

controlled so that the consumer would not be called upon to increase the percentage of his expenditure on farm requisities. The farmers were to receive the same proportion of the consumer's dollar that they received during the base period—1909-14.

Commodity Benefits

It was considered that excessive production of agricultural commodities was depressing their prices. As a result of war stimulus to production, the continuation of the same mentality, and the replacement of horses by machines had brought more than 50 million acres under the plough. The United States export of agricultural products to foreign countries began to decrease owing to increasing restrictions imposed by the foreign countries. And owing to emigration prohibition the population of the country was not increasing. So under the circumstances it was considered that in order to raise agricultural prices it was necessary to decrease the supplies. In order to achieve this end provision was made in the Act for the reduction in the acreage or reduction in the production for market, or both, of basic agricultural commodities, through agreements with producers or by other voluntary methods, and to provide for rental or benefit payments. The money required for such purposes was to be raised by imposing processing taxes. These taxes were to serve two purposes: (1) to provide funds for the payment of benefits to farmers for reducing their production, (2) to produce more income from the so controlled commodities than would otherwise be received.

Marketing Agreement Powers

The Act also made provisions for empowering the government to enable the farmers to realise their real share of national income. The government was given the power to act both as an arbitrator and a partner in an agreement amongst the association of producers, processors and distributors of farm products.

Administrative Expenses

In order to meet the administrative expenses a sum of $100,000,000 was sanctioned.

Working of the Agricultural Adjustment Act

Space does not permit the detailed working of this Act to be described. The report issued by the Administration about the working of this Act is a voluminous document of about 400 closely written pages. Here we shall take only those commodities in which India is most interested.

Increase in the production of various Agricultural Commodities in the U.S.A.

Wheat.—The world war brought about a tremendous change in the world production of wheat. The then chief wheat producing countries of the world were involved in the war and their fields were destroyed by the hostile armies. They were even unable to produce enough wheat to feed their own people. Consequently the overseas countries received a great stimulus to increase their wheat production. Rising prices and patriotic feeling proved a further spur to increase their activities.

In the United States the war gave a great stimulus to agriculture under the slogan "Food will win the War." The Department of Agriculture with the co-operation of the National Council of Defence and of State Councils exerted every possible pressure on the farmers of the country to increase production. The Food Production Act of 1917 apportioned two and a half million dollars to the emergency seed fund, which was later increased to six and half million dollars. As already pointed out, owing to the combined stimulus of patriotism and increasing prices, millions of acres which were previously grass lands were brought under wheat cultivation. Owing to shortage of manual labour, labour-saving devices received increasing attention and revolutionary changes were brought about in farm machinery. These vast technological changes made it possible to replace the horse by the machine. The area that was required to feed these farm animals was devoted to producing more wheat. While wheat production was increasing the suddenly

acquired wealth resulted in people becoming more fastidious in their diet. Wheat began to be replaced by more expensive substitutes like vegetables, and fruits. It is estimated that when the war began the annual per capita consumption of wheat as a human food was 5.6 bushels per year in the United States. At the close of the war this had declined to 4.6 bushels.

Another very important factor which resulted in the decline of wheat export from the United States was that before the Great War the U. S. A. was a debtor country and had to export its produce to meet its foreign obligations. After the War the U. S. A. became one of the biggest creditor countries in the world and under the circumstances it no longer needed to make any foreign payments. Before the War the U. S. A. owed $3,000,000,000 to foreign countries. During the War the U. S. A. Government and its nationals began lending money on a wholesale scale and at the end of 1919 the foreign nations owed $14,000,000,000 to the U. S. A. Instead of getting these loans back in the form of commodities, it increased its barriers against the import of foreign products and insisted on payment in gold. In order to facilitate this it started making loans. Owing to their short-sightedness American statesmen did not fully realise the force of the changed circumstances and followed a narrow and selfish policy which brought about their ruin in the end. The rapid pace of loan advances declined in 1927 and ended with the bursting of the boom on the Stock Exchange. The result was a catastrophic decline in the prices. When the foreign demand for the U. S. A. wheat declined, the farmers began to hoard it in the hope that prices would soon rise and they would be able to dispose of their hoarded produce at more remunerative prices.

Increase in the Carry-over of Wheat in the World

In July, 1928, the world carry-over of wheat was 400 millions of bushels, of which the U. S. A. share was over one hundred million bushels. In 1933 the world carry-

over increased to about 800 million bushels of which the share of the United States alone was 400 million bushels. At the same time when the world carry-over of wheat had reached undreamt of figures and was depressing prices to the lowest possible level, many European countries were trying to encourage wheat production at a tremendous cost to the tax-payers. The price of wheat in the U. S. A. fell from 120 cents per bushel in 1920 to 50 cents in 1931-32, while between the same period the price in Germany increased from 115 cents to 152 cents and in France from 171 cents to 174 cents.

World Wheat Agreement

The chaotic conditions of the wheat market and the miserable plight of wheat growers in the leading exporting countries of the world attracted great attention at the World Economic Conference which was held in June 1933 in London. Before the Conference met preliminary discussions had taken place in Geneva amongst the leading wheat exporting countries of the world, *i.e.*, Argentine, Australia, Canada, and the U. S. A. Concurrently with the World Economic Conference, the Wheat Conference was held, in which both the leading wheat exporting and importing countries were represented. The efforts of this conference were crowned with some success and as a consequence of long negotiations an agreement was approved and signed by all the leading wheat importing and exporting countries of the world.

The main provisions of this agreement were that the exporting countries should undertake to control their production and exports. The Conference fixed the definite limit to the export of wheat from these countries for the crop of 1934. On the other hand the importing countries agreed to do everything that was in their power to encourage the consumption of wheat, to reduce their import duties and other restrictions as quickly as their circumstances admitted. The following table gives the export quotas of each country as fixed by the agreement:

(Millions of bushels)

	Quotas 1933-34	Quotas 1934-35	Actual exports. Average 1933-34	Average 1926-29 to 1932-33	Average 1930-31 to 1932-33
Argentina ..	110[1]	148[1]	129	155	129
Australia ..	105[1]	150[1]	128	123	148
Canada ..	200	263	231	268	245
U. S. A. ..	47	90	68	110	89

For the purposes of this agreement the years 1931-32-33 were reckoned as the base period. Canada and the U. S. A. undertook to reduce their wheat acreage by 15 per cent. as compared with the acreage in the base period, while Argentina and Australia undertook to reduce exports to an equivalent amount, without increasing their total stored wheat

Reduction of Wheat Acreage in the U.S.A.

Even before the Wheat Agreement was signed, the Agricultural Adjustment Act was passed in May 1933. The signing of the Agreement strengthened the hands of the Administration and vigorous efforts were made to carry on their programmes of reduction of wheat acreage.

Features of the Wheat Acreage Reduction Programme

The following are the main features of the Wheat Acreage reduction programme:

(1) Compensatory payments to be made to those producers who enter into an agreement to reduce their wheat acreage.

(2) 28 cents per bushel were to be paid for the crop year 1933-34, on that portion of each producers base production corresponding to the proportion of the total natural production which was ordinarily consumed in the U. S. A. This portion was estimated at 54 per cent.

(1) In case 1933-34 exports fell below the assigned quota the 1934-35 quota will be correspondingly increased.

(3) The contracting producer agreed to reduce his acreage by not exceeding 20% of his three years average wheat acreage.

(4) In order to provide funds for payment to the wheat farmers the Act authorised the Administration to levy a processing tax on the millers.

(5) The acreage for production was allotted to each State, county, and the farmer.

(6) County and district wheat production control associations were organised to supervise the work.

Results Achieved

The movement to reduce wheat acreage was carried on very vigorously and whole-heartedly. As a result out of a total of 1,200,000 wheat producers, 550,000 entered into agreement to reduce their acreage. The signatories represented 77 per cent. of the wheat acreage of the country and 11.5 per cent., *i.e.*, 7,595,000 acres were removed from cultivation and in exchange they received $66,500,000 as compensatory payments. The following table gives fuller information about the achievement of the wheat acreage reduction programme.[1]

1. Number of wheat growers who signed an application for 1933-34 adjustment contracts ..	550,000
2. Total average acreage planted to wheat by all United States farmers for base years 1930 to 1932, inclusive	65,958,000
3. Total average acreage planted to wheat by contracting producers in base years 1930-32 ..	50,000,000
4. Percentage of indicated total base acreage (given in item 2 above) signed up under contract (item 3) per cent. ..	77
5. Estimated acreage that will be taken out of production during 1933-34	

(1) Agricultural Adjustment Administration Report. U. S. Department of Agriculture. May, 1933 to Feby. 1934. page 43.

season by contracting producers (15 per cent. of item 3) ..	7,595,000
6. Estimated net receipts from processing tax of 30 cents per bushel during 1933-34 marketing year ..	$108,000,000
7. Total benefit payments made to contracting producers in 1933-34 marketing year (28 cents a bushel on domestic allotment) ..	$ 95,000,000
8. Available from processing tax for surplus wheat removal ..	$ 8,000,000
9. Bushels of wheat to be purchased for export by the Pacific Emergency Export Association ..	35,000,000
10. Carry-over on July 1, 1933, in bushels	389,000,000
11. Probable carry-over July 1, 1934, in bushels	300,000,000
12. Estimated income from 1933-34 wheat crop, including benefit payments	$376,000,000
13. Income from 1932-33 wheat crop ..	$169,000,000
14. Maximum seeded acreage for United States under World Wheat Agreement	55,859,000

Cotton.—The cotton acreage planted in the United States increased from 29,716,000 acres in 1921 to 45,847,000 acres between 1921 to 1926. The world production of cotton (excluding the U.S.A.) increased from 28,522,000 acres in 1921-22 to 421,310,000 acres in 1925-26. The increase in the share of various leading cotton producing countries was as follows. During the period stated above, India's acreage increased from 18,451,000 to 28,403,000, Russia's from 296,000 to 1,464,000, Australia's from 8,700 to 18,800, Argentina's from 38,600 to 272,000; and Anglo-Egyptian Sudan's from 1,339,000 to 1,998,000. This tremendous increase in the production of cotton continued

even after 1925-26. The producers did not realise that the time had come to make a halt. The impact of the economic depression made a very serious onslaught on the cotton industry and the demand for cotton was seriously curtailed. The producers still did not realise the changed circumstances and began to hoard cotton. The Cotton Stabilisation Corporation helped farmers in carrying over their stocks by offering them higher prices than those that were prevalent in the markets of the world in the hope that thereby they would be able to influence the course of world prices. The world carry-over of American cotton was less than 5 million bales in 1929-30. In 1932-33 it increased to the impressive figure of 13 million bales.

The gross farm income of the American farmers from cotton and cotton-seed fell from $1,470,000,000 in 1929-30 to $431,000,000 in 1932-33. This represented a decline in gross income per farm family for cotton and cotton-seed from about $735 in 1928-29 to $216 in 1932-33. Cotton prices received by producers fell from an average of 18 cents in 1928-29 to 5.7 cents in 1932-33.

Reduction in the Cotton Acreage in the U. S. A.

The total number of acres that were under cotton cultivation was 49,929,000. In order to improve cotton prices it was desired to reduce this to about 30 million acres by giving compensation to those farmers who agreed to reduce their acreage. A total payment of $110,000,000 was paid to 1,026,514 cotton growers who had agreed to reduce their acreage. The following detailed table gives further information:—

Salient facts about the Cotton Programme

1. Number of cotton growers who carried out adjustment contracts in 1933	1,026,514
2. Total number of acres of cotton under cultivation in United States, July 1, 1933	40,929,000

3. Total number of acres of cotton under cultivation, July 1, 1933, by contracting producers ..	29,893,059
4. Percentage of total acreage under cultivation (item 2) signed up under contracts (item 3) in 1933 per cent ..	73
5. Acreage taken out of cotton production in 1933 by contracting producers	10,400,000
6. Total acreage harvested in 1933 ..	30,144,000
7. Total number of bales of cotton in United States, in 1933	13,177,000
8. Bales of cotton removed from production under contract in 1933 ..	4,400,000
9. World supply of American Cotton, 1932-33 bales ..	26,000,000
10. World supply of American cotton, 1933-34 bales ..	24,800,000
11. Total of cash rental payments ($7 to $20 per acre without option; $6 to $12 per acre with option) on land taken out of production in 1933	$112,000,000
12. Total available for 4-cents-per-pound advances on cotton options to 571,969 under 1933 contracts ..	$ 48,000,000
13. Total available through Commodity Credit Corporation for 10-cents-per-pound loans on unsold cotton.	$250,000,000
14. Estimated receipts from 4.2 cents-per-pound processing tax in 1933-34 marketing year	$116,000,000
15. Farm value of 1932 crop (seed and lint)	$425,488,000

16.	Farm value of 1933 crop (seed, lint, cash rental payments, profits on option)	$857,248,000
17.	Per cent. increase of 1933 farm value over 1932 farm value per cent.	101.5[1]

Rice.—The U. S. A. rice industry has been encouraged under the shelter of tariff walls since the beginning of this century. Since the War it has developed so much that the U.S.A. has been an exporter of rice. When the domestic production increases more than the domestic consumption the tariff does not help very much as the surplus must be exported and sold at world prices. The impact of economic depression severely lowered the price of rice. Between 1921-29 the price of rice was $1.10 cents per bushel. It fell to 78 cents in 1930, to 48 cents in 1931 and to 39 cents in 1932. The same folly of hoarding rice like cotton and wheat until better prices are obtainable resulted in the accumulation of huge stocks. The domestic carry-over of rice which was 81,000,000 pounds in 1930 increased to 116,000,000 pounds in 1931 and reached the high figure of 220,000,000 pounds in 1932. This huge stock produced psychological reactions and aggravated the decline in prices. The farmers realised their mistake and their stock has since been declining. Since the depression the export trade in rice has declined. Increasing restrictions and duties had been imposed on the import of rice in many importing quarters. The export of rice from the U. S. A. fell from 320,000,000 pounds in 1928-29 to 128,000,000 pounds in 1932-33.

The Rice Adjustment Programme

The system of benefit payments which could be operated by levying a processing tax on the milling of rice was not chosen for the reason that rice is a minor crop and is confined to a comparatively small localised area. Moreover the interests of the milling industry were prepared to co-operate with the Administration and it was thought that " marketing agreements "

(1) Agricultural Adjustment Act Administration Report, page 19, op. cit.

would provide better protection to the farmers than the compensatory payments.

The following are the outstanding provisions of these marketing agreements:—

(1) The miller agrees to pay the minimum price to the farmers for their rough rice, as fixed by the Secretary of Agriculture.

(2) The Secretary of Agriculture in consultation with the millers will fix the maximum charge for milling rice.

(3) The millers agree to set aside 10 cents per bushel in order to exploit the possibilities of developing foreign markets for American rice.

(4) The organisations of the millers and the growers agreed to a plan of production control which provided for the allotment of acreage among growers on the basis of past production and an advantage in return to growers who co-operate in this scheme by giving them better prices by the creation of an equalisation pool. This equalisation pool works out like this: when growers deliver their rice to mills the mills pay a fixed percentage of the price to the grower, which has been fixed by the Secretary of Agriculture and the balance is paid to a grower's trust fund. In practice 70 per cent. is paid to the growers and 30 per cent. is paid into the trust fund. Those growers who co-operate in planting their allotted share and no more, participate pro rata in the final distribution of the trust fund. Growers who have not co-operated in this programme receive no payments.

As a result of this programme the domestic prices of rice have risen above the world prices and considerable reduction has taken place in rice acreage. But the domestic consumer of rice had to bear the burden of this increased price. The cumulative burden of increased prices of so many commodities has been rather heavy on the budgets of ordinary families. As a result of this burden they have been compelled to reduce their demand for such commodities, which has further accentuated the

depression and has depressed the prices. Thus the effects of all these cumbersome measures have been nullified. And in spite of all these price regulation enactments the world is still at a far distance from the desired utopia, and in my opinion there is definitely no hope of the world reaching this goal as long as nations follow their own path without paying due regard to the welfare of the world as a whole. In the following two chapters we shall study the case of Germany and the United States, where heroic efforts have been made by their Governments to achieve economic prosperity, and see what lessons India can learn from their experience.

CHAPTER IV

THE STATE & ECONOMIC LIFE IN GERMANY

STATE intervention in the economic life of the people in Germany reached its climax during the Nazi National Socialistic regime. But for a long time Germany has never been free from state intervention. Even before the war the state was following a policy of intervention by tariffs and other means—measures which look very innocent in comparison with the present drastic state control measures which cover production, exchange, distribution and even consumption. Before the war the government had deliberately encouraged the production of cereals in Germany through tariffs, but during the food shortage in the Great War it was found that this production in cereals had been encouraged at the expense of home supply of meat and other dairy products, the need of which was acutely felt during the blockade, and Germany had to pay very heavily for this mistaken policy of encouraging wheat and other cereals at the expense of the dairying industry. After the war many attempts were made to rebuild the demolished and exhausted industry of agriculture but too great an intermixture of politics with economics spoiled the whole thing. Currency inflation aggravated the situation and the final collapse of the mark brought about a complete catastrophe.

Increasing attention was devoted to rebuilding agriculture during 1924-32 and scores of laws were passed to help the farmer. In the beginning, high tariff duties were imposed on the import of many agricultural products, and when this did not achieve the desired end,

attention was diverted to marketing aids, the indirect operation of the Government in the market, and planned and regulated consumption. Finally the aim was to socialise consumption. In the meantime the condition of the farming classes was getting from bad to worse.

The indebtedness of the farmers was increasing at an alarming rate. It increased from 7,300 million Reichsmarks in 1925 to 11,765 million R.M. in 1932, and the burden of interest increased from 425 million R.M. in 1925 to 1,005 million R.M. in 1932. The number of forced sales of properties increased from 2,554 in number in 1927 (36713 Hectars) to 6121 in number (151325 Hectars) in 1932.[1]

All this happened in spite of increasing state intervention. Over thirty laws were passed between 1924-32 to regulate the prices in order to ameliorate the condition of the farmers, which in spite of all these laws continued to deteriorate. It is interesting to know that all these laws were not passed with the genuine motive of helping the farmers but as a measure of political expediency and compromise. Here we reproduce a rather lengthy quotation to show this conflict of interests.

" One of the new bones of contention for the political arena was the agricultural price policy, in that it was tossed into the arena with its complicating features, Government protection through tariff acts, treaties, market aids, and finally regulated consumption. Though the old producer-consumer conflict of the inflationary period between urban and rural groups persisted, the government protectionistic measures inaugurated as soon as the currency stabilisation and the Versailles Treaty commercial restrictions permitted, furnished a basis for a new combination of interests. Grain and animal commodity producers received tariff protection by virtue of alliance with industry against labour. But this advantage to the grain producers was lost as soon as industry sought and found support from labour and to some extent from the small farmers and animal products

(1) Holt J. B., German Agricultural Policy, pages 138 and 139.

producers in making favourable commercial treaties at the expense of the grain producer. A gradual swing of the "mixed" middle parties when the grain price depression set in with full force finally broke the industry-labour small farmer combination and established grain protection by means of regulation of grain consumption at the expense of the small farmer and industry."

"In this change of policy national idealogy played an important part. The establishment of government apparatus for grain price control (grain trade monopolies) was made possible as much by a Social Democratic idealogy, *i.e.*, either desire to eliminate grain trade speculation by government monopoly as by the grain producer agitation for the price control at all costs."[1]

How the Nazi party came into power is partly explained by the fact that as the small farmer and labourers were left without support from any other parties they rallied to the Nazi ranks.

German Agricultural Policy under the Nazi Regime

As explained above, the farmer was not attracted in the beginning towards Naziism owing to his faith in its philosophy, but he joined the Nazi ranks as a protest of dissatisfaction against other parties. However, the Nazi leaders were not unaware of the real situation and they fully realised that it was absolutely necessary to win the active support of the farming classes in order to carry out their plans successfully. It was with this aim that the party appointed its best agrarian leader—Darre—to preach national socialism amongst the farming population, and he prepared a very attractive programme to win the support of this class. We quote below some of the salient features of the programme in order to show its comprehensiveness and to show how the farming population was imbued with hatred against the Jews by making them believe that it was really the Jews who were responsible for their troubles. Explaining the causes of low prices of agricultural products and

(1) Holt, J. B. op. cit. page 166

especially the small returns received by the farmers, it was pointed out in the programme that:

1. The present tax policy imposes a comparatively heavy burden on agriculture as compared with industry. The reason given for this ill-treatment of agriculture is that this state of affairs has come into existence through political party interests and as German democracy was run by the Jewish world financial organisation they have deliberately brought about the destruction of the German people.

2. The anti-agrarian policy.

3. The unpermissibly high profits which the whole-sellers of agriculture products charge by coming between the producers and the consumers, and this business was greatly in the hands of the Jews.

4. The usurious prices which the farmers have to pay for commercial fertilisers and electricity, generally to Jewish concerns.

Nazi Remedies

Before we describe the remedies that were suggested by the Nazi leaders to cure the ills of agriculture and to win the support of the farming population it is necessary to understand the Nazi ideology, on which their whole programme is based. It is the intoxication of this ideology which makes a person apparently immune from any other dangers and under its influence he is prepared to do anything.

Nazi Ideology

The following are the two main principles of Nazi ideology:—

"(1) The folk on racial unit bound by language, blood, and cultural heritage, is the most fundamental unit in the social-economic-political evolution of mankind. A rupture of its cohesion through class warfare, foreign culture influence, or blood mixture, leads to its disintegration."

"(2) The greatest disintegrity to the German folk lies in the materialisation of its standards through the

growth of a capitalistic society with its emphasis on the individual, its division of Folk into warring classes bound to one another by no higher moral ties of mutual obligations, and the ascendancy of a capital and interest paying mentality and actual economic and political power (claimed to be predominantly in the hands of Jewish international capital lending monopoly) over moral obligations to the German Folk and its future."

One requires a great deal of concentration of mind to comprehend and even after due consideration one hardly understands what all this Jingoism means. But these high sounding words carried great weight with the simple-minded farmers. The basic idea underlying Darre's programme (which we shall describe below) was to bring home to the farmer that he was really something *great and noble.*

The Agrarian Policy of the Nazi Party

Here are some salient features of Nazi propaganda which they carried out in 1930 in order to win the farmers' vote.

1. German soil, taken and defended by the German people provides a living area and the means of subsistence for the whole German people. So only German folk may be in possession of German Soil. (This amounts to expropriation of Jewish landlords.)
2. Land acquired by lawful German folk is regarded as an inherited property. To this property, however, is attached the duty of using the soil to the good of the whole people. Vigilance regarding this obligation is the task of Vocational Courts, which are composed of representatives of all Vocational divisions of the agricultural population.
3. German soil must not be an object of speculation and must not be a source of effortless income to the owner. In the future only a person who cultivates it himself can acquire

land. Therefore the State has a pre-emptive right in the sale of land and soil. The use of land and soil to secure debts to private moneylenders is prohibited.

4. For the use of German soil the owner must pay to the State a tax in keeping with the quality of the property. No other taxes are to be imposed on the agriculturist.
5. The inherited rights of land and soil are to be not be divided into many parcels and no bur- adjusted in such a way that the land should den of debt imposed on it.
6. The State reserves the right of expropriation at reasonable cost especially of those land-holders who according to the judgment of the Vocational Courts do not farm the land in a fit and proper manner or who no longer serve to supply food to the German people.
7. Land will be given to landless persons who are prepared to exploit it in the interest of the nation

This programme was to come into operation as a permanent policy when the Nazi party came into power. However it would have taken some time to put it into practice, and the paralysis from which the agricultural industry was suffering needed some immediate relief and in order to win the support of those who were suffering, the party offered the following attractive programme:

Immediate Relief Measures to help the Distressed Agriculturists

(1) In order to offer immediate relief it was suggested that a halt should be called to any further rise in agricultural taxes, and reduction in the farmer's indebtedness was to be achieved at once by reducing the rate of interest to the pre-war level and to take severe action against usury. It is interesting to point out here that during the period of currency crisis and some years after

it the German farmers had to pay exhorbitant rates of interest ranging from 18% to 60% per annum to get credit and even at these usurious rates it was difficult to find any accommodation.

(2) The state was to adjust its economic policy in such a way that agricultural work would become remunerative. Domestic production was to be protected by import duties, government regulation of imports, and consciously planned national education. The price formation of agricultural products was to be withdrawn from the speculating influences of the produce exchanges and the exploitation of farmers by wholesalers and distributors was to be made impossible by suitable state action, and the carrying out of the wholesale business by the farmers co-operative organisation was to be encouraged. The Vocational Organisations were to find out ways and means to reduce the cost of production and to increase the total output.

(3) The interests of the general labourers were to be specially safeguarded.

(4) The cultural side of farm life was to be developed by means of vocational education for youths by opening clubs, and by other similar methods.

The Nazi Agrarian Policy in Practice

When the Nazis came into power in 1933, they did not take long to put into practice some of the important aspects of their agrarian policy. In order to understand the full significance of the Nazi policy, it is essential to bear in mind that in their scheme of things the interest of the community must be placed above all other interests, and every possible piece of propaganda was carried out to bring home to the farmer that he was something great and noble—a regenerator of the community—and far above ordinary men.

In the first speech that Darre made after the coming into power of his party he declared: "By being able to take firm root in his inherited soil, the yeoman should be enabled once more to become the instrument of the

racial regeneration of the German people". In Nazi Germany all economic activities are carried on in the interest of the community as a whole and all private economic and commercial interests must be subordinated to the interest of the state. This is clear from one of the early speeches of the Nazi leader. "All activities will be governed by the law that the nation does not live for the benefit of the economic system, nor the economic system exist for the benefit of capital, but capital serves the economic system and the economic system the State." The farmer appears very prominently in the Nazi programme as it is with the yeoman class that they want to build a bulwark against the invasion of communism and make Germany a self-sufficient nation. A further feature of the Nazi policy is "the speeding up of old, and the creation of new plans for the organisation of all economic resources within Germany in such a way as to render the country as independent of foreign supplies as possible with a view to guaranteeing the basis of existence for the nation under any circumstances. It is contended that the failure of the farmer will lead to the collapse of German economy and also spell disaster to the whole German nation. Not only is the farmer regarded as the prime source of food supply, but in addition, as a political bulwark against communism and an important factor in helping to maintain the high birth rate."[1]

It is clear from the above quotation why the farmer has become the centre of Nazi activities.

The Inherited Free-hold Act

The most revolutionary thing that was done by the Nazi party when it came into power was the passing of the Inherited Free-hold Act. The most important feature of this Act is that it has prohibited the sale of real estate farms. This means that no security has been left for advancing long term loans. The Roman Law which gives absolute power to the holders of the

(1) Rawlins, E. C. Donaldson, C.M.G., C.B.E., Economic Conditions in Germany, 1936, H.M.S.O. (London)

properties was ridiculed by Darre as it perpetuates the evils of private ownership and land speculation and encourages indebtedness of the proprietors, which eventually deprives them of their ownership of land. The Nazi party defends this act on the ground that by prohibiting the sale of farm land, they have made it impossible for the farmers to run into debt to the private moneylenders who had been sucking the blood of German peasantry, and also they have made it possible for the farmers to inherit their ancestral land without any encumbrance or obligations. The obligations that are imposed on the farmers now are due to their privileged position as the food producers and the race generators of the nation. Now a German farmer cannot marry a girl that he loves if she does not belong to the Aryan race. Marriage is no longer considered as a personal and private affair. As a regenerator of the German race the farmer must accept these obligations. It is surprising that a thing like marriage, which is partnership for life and requires mutual harmony and love, is made a matter-of-fact thing. Cases are not unknown where persons have been sent to jail for marrying in the prohibited circle. The idea of the Nazi party is to create a new type of nobility—the yeomen nobility—in contrast to the landed aristocracy which existed in the previous century. " The new nobility expression carries with it the idea that this part of the farm population will be the back-bone of the national political morale, just as formerly the landed nobility secure on their Fideikommiss entail estates were the back-bone of the monarchial state."[1]

No borrowing is allowed on the security of these free-holds. The free-hold cannot be removed from the family possession except by the order or the approval of the State. As regards inheritance, it is governed by the law of primogeniture and if the inheriting son proves to be a bad farmer, the free-hold goes to the next in line of inheritance. This policy has resulted in the cessation of money lending on the security of land. In order to fill

(1) Holt, J. B. op. cit. page 206.

this gap the state had to step in and had to provide drainage and other facilities to improve the soil. In the absence of any security for long term credit, personal credit plays a more important part, and this field has been left to the co-operative societies.

Organisation of Marketing

In order to organise agriculture on the national corporation basis, the following law was passed in September, 1933. It is called "The Act Concerning the Provisional Organisation of the National Corporation of Agriculture and Concerning Measures for Regulating the Market and Prices of Agricultural Produce." This is the cardinal centre of the national socialistic laws concerning agriculture, as it is this frame work within which all the agrarian laws are built. This act empowers the state to regulate the marketing of agricultural produce prices, for the guaranteeing of a minimum price to the producer of wheat and rye, and also fixes the prices at which the mill owners are compelled to buy these products from the farmers. In later years it became the policy of the Nazi government to fix prices for all sorts of agricultural products. The explanation offered for this increasing intervention by the state was that owing to their peculiarly privileged position—service to the people as food producers, and regenerators of the new German nation—farmers were entitled to special consideration. We take the liberty of reproducing another quotation to show the Nazi explanation for adopting this policy.

"Since in the free play of liberalistic commodity exchange relationship, a just equalisation between farm produce and industrial products could not take place, or in other words the price scissors which had been opened to the disadvantage of agriculture could not be closed, the laws of the liberal economy had to be eradicated from the economic system. Where the liberal mechanism of the market failed, an order had to be instituted which insured a just price for the farmer's products and which thereby excluded from the world the dangerous factors of the price scissors." In plain English it boils down to

this, that the free forces of supply and demand no longer operate in the German agricultural market and the prices are no longer determined by these forces but by the executive flat which is officially called " 'the rationalisation of the marketing organisation in the most efficient manner."

The first step towards this rationalisation was taken by other political parties before the Nazi party came into power. This was the setting up of The Reich Corn Monopoly in 1930 which provided that all corn must enter the market only through the monopolistic organisation which levied a tax on the sale of corn which was borne by the consumers at home. Under the Nazi regime in the first half of 1933, oil-seeds and fats were also brought under the monopolistic control of the government, but these "*comparatively mild*" measures of state intervention did not achieve the desired end and it became necessary to pass some more drastic laws. This was done by passing The Guaranteeing of Grain Prices Act, and The Consolidation of Grain Mills Laws in September 1933, which provide for the complete control of agricultural prices. The Nazi idea is that commerce and industry safeguard their interest by combination and cartels, but the farmers are denied these facilities owing to the inherent nature of the agricultural industry. That is why the state wants to help the farmers in their helplessness. In this connection Darre remarked "Furthermore we must make it clear to ourselves that the farmer is no longer an entrepreneur in the ordinary sense of the term. The food producer cannot and should not take part in the game of price making. He must not be thrown upon the dangers connected with this game, because his function for the nation is extremely important. We need the farmer, as a source of new blood for the German people and we need him also as the food provider for the German people."

It is clear from the above quotation and many other utterances which we have already quoted, that the Nazi Government is not concerned as much for the farmers'

welfare and with providing them with good returns for their labours by way of higher prices, as was originally advocated, but is more concerned in increasing the food production for the German people and with increasing the population of the country. In other words farmers are to be only food-and children-producing machines in order to satisfy the egoistic notions of this self-conscious state. This idea was put into practice by passing the "Act for Regulating the Grain Business," in June 1934. The immediate cause which led to the passing of this Act was the summer drought of 1934.

Regulation of Grain Business

The following are the main provisions of the Act for Regulation of Grain Business:—

(1) Growers of domestic wheat or rye are compelled to deliver their produce at fixed prices.

(2) Co-operative dealers or other distributors are required to buy it at fixed prices.

(3) Mill owners and other processors of these products are required to acquire and sell them at the prices fixed by the State.

These prices were fixed by the Minister of Agriculture. Farmers suffered considerable losses owing to this executive fiat but they were told that they must be prepared to suffer losses for the sake of their community.

Multiplicity of Laws in Germany

It is not an easy task to give any comprehensive idea regarding all the laws that have been passed in Germany during the last two years which directly or indirectly affect the economic life of the people and provide increasing control of the State in one direction or the other. During the year 1934 alone a total of 202 laws and 436 decrees was issued which covered all aspects of life and business. To this 150 laws and over 700 decrees were added in 1935 and considerable further addition has taken place during the present year (1936).

It is a most formidable task to give a full description of all these measures, but in order to show the part which the state plays in controlling the economic lives of the

people we give here below in brief the description of various types of laws that have been passed in the recent years:—

(1) Law for Regulating National Labour. This law was passed in January, 1934 and is considered as the Magna Carta of National Socialistic German Labour The following are the main provisions of this law:—

(a) In each firm, the owner of the firm as the leader and the salaried and wage earning employees as his followers, should work together for the purpose of the furtherance of the firm and for the benefit of the nation and the state in general.

(b) The leader of the firm shall make decisions for his followers in all matters affecting the firm in so far as they are governed by this Act. He shall provide for the welfare of his followers while the latter shall be loyal to him as fellow members of the works community.

It may be pointed out here that in accordance with the fascist idea, strikes and lock-outs are prohibited, and are punishable offences. The labourers, along with other classes of the nation, are expected to make sacrifices for the national cause. Owing to the vigorous pursuit of the policy of self-sufficiency, the cost of living in Germany has considerably increased during recent years but the wages paid to labourers have fallen. The prices of all important food products are several times higher in Germany than the world prices, but in spite of the increased cost of living, the German labourers were forced to be content with their lot in the interest of the nation. We reproduce a table below to show the difference between the prices of important commodities in Germany and the world prices.

			Germany Wholesale Prices	World Wholesale Prices (in Swiss Gold Francs)
Wheat	..	..	211.5	72.4 (London)
Rye	..	..	167.0	58.5 (Posen)
Barley	..	..	199.1	50.7 (London)

	Germany Wholesale prices	World Wholesale Prices (in Swiss Gold Francs)
Rapeseed	320.0	157.2 (London)
Flax-seed	260.0	148.2 (London)
Wool	6,580.0	1,441.2 (London)
Pork	1,420.0	922.1 (Copenhagen)
Sugar	406.8	104.8 (London)
Butter	2,540.0	1,206.4 (Copenhagen)
Eggs	10.0*	7.1 (Copenhagen)

*Per hundred.

The above table hardly requires any comment.[1] The German prices of several products are many hundred times higher than the world prices. And owing to this heavy cost of living the cost of production in Germany has considerably increased and has very seriously diminished the ability of German exporters to compete in the markets of the world. We shall deal with this aspect in a later section.

Eleven of the most important food products are controlled by the Central Marketing Boards and the prices of these products are determined irrespective of the world prices.

(2) Domestic Labour Law

This law was amended to guarantee adequate wages to domestic labourers.

The following two laws were passed to safeguard the interest of the lower middle classes.

(3) Law for the Protection of Handicrafts

This law was passed early in 1935 and provides that a person desirous of doing handicraft business must prove that he possesses adequate skill in that industry and is competent enough to carry on with this business. The idea underlying this law is to eliminate inefficient workers and to avoid the multiplicity of works which depress the industry.

(4) Law for the Protection of Retail Trade

This law was passed along with the Law for the Protection of Handicrafts, and the Regulations under this law provide for the licensing of all new shops. In practice no licence is granted unless it is shown that the applicant

(1) Rawlins, E. C. Donaldson, op cit. page 137.

is competent and a shop of that particular type is required in that area. It also affords protection to the existing shopkeepers from unfair competition. Departmental and multiple stores are discouraged in Germany and every possible help is given to the owners of small shops.

(5) Law Concerning Commercial Propaganda

This law was passed in September, 1933 and provides that all advertisements, as well as the holding of fairs and exhibitions should be controlled by the Propaganda Council of Germany and their approval must be obtained before any advertisement is published. This Council levies a fee on the income received from the advertisements. Fairs and other shows are strictly controlled. This law also acts as a check against fraudulent advertisement and provides for an advisory board to give scientific advice and other necessary help to advertisers of good and genuine articles.

(6) Laws Relating to Agriculture

The various important laws that relate to agriculture have already been mentioned in the previous pages.

Decree establishing the Department for Planning National Territory

This decree was made in June, 1935, and its aim is to prevent any overflow of population from the country-side to the towns. Various facilities and amenities are provided to the country labourers in order to encourage them to stay in the country. Regulations made under this decree also deal with the location of certain industries, the uniform planning of settlements, roads, buildings, etc.

(7) Law for the Promotion of Power Supply

This law was passed in December, 1935 and provides for the securing of efficient and cheap supply of electric power and gas for the German people both in time of peace and war.

(8) Laws effecting Transport, Road Building, and Motor Traffic

Various laws and decrees have been passed dealing with the subject and the main purpose of these laws is to

avoid the ruinous competition between various branches of transport. In order to encourage the development of the automobile industry, a law was passed to exempt the users of private cars from all motor taxes.

(9) Banking Law

This law is the outcome of the recommendations made by the Banking Enquiry Committee's Report, which was published at the end of 1934. This Law provides for the supervision of banks by a board under the Reichsbank. It authorises the board to make regulations regarding the investment and liquidity of Credit Institutions. It may be mentioned here that the committee reported against the nationalisation of banks and suggested only state supervision. Regulations have been issued by the board to prohibit the issue of cheques on Savings Accounts and for keeping the accounts and investments of Savings Banks separately from other accounts and investments. Increasing privileges have been given to the Reichsbank to demand detailed information regarding the affairs of banks.

The Economic Effects of State Intervention in Germany

The task of the economist in estimating the economic effects of these multifarious regulations which touch every aspect of life and work in Germany, and pronouncing his judgment, is at once very easy and very difficult. It sounds contradictory, but all the same it is true. It is easy because the Nazi leaders are bold and honest enough to declare frankly that it is not economic considerations which weigh heavily with them, and no attempts have been made either to dupe their own nationals or other nations about the economic soundness of their doctrines. On the contrary it has been repeatedly proclaimed that the German people must be prepared to sacrifice not only the luxuries and comforts of life but even many necessaries in order to secure national solidarity. When people have been faced with shortages of many necessaries of life and prices of other similar commodities have soared to high levels without any appreciable rise in their wages they have been told to bear this

burden with smiling faces, as the sacrifice will result in making the German nation immune from foreign dangers, especially that of communism.

Speaking at a recent meeting Herr Rodolf Hess, Hitler's Deputy remarked "Let no one think that if the economic war against the nation failed, Germany would be overpowered by force of arms—by an invasion of Russian militarism. We have made provision. We are ready now and in the future to manage with less fat, less pork, and fewer eggs, because we know that this small sacrifice is a sacrifice on the altar of our national freedom." Addressing the German housewife, he further remarked "Every new gun, every new tank, and every new aeroplane, increases the security of the German mother—guarantees that her children will not be murdered in an unhappy war, nor assassinated by Bolshevist gangs. We are taking good care that the desire to attack us should vanish entirely. You, my German housewives, influence the mood of your husbands, the nation's mood depends a great deal upon you. A good housewife does not mourn because she cannot obtain a quarter of a pound of pork."[1]

The wonder of all wonders is that the German housewife (from all available records) is willingly prepared to make these sacrifices. In a case like this an economist has no quarrel, and his task is easy, because the investigation falls outside his province. However, when it is claimed that the economic advantages of this policy have been very great, the task of an economist becomes rather formidable.

Everything that is happening in Germany is covered with mystery. There is great lack of any information on which to base one's conclusions. During the last two years even no detailed account of the budget has been published. The statistical data manufactured by the State Agencies can hardly be relied upon as a basis for scientific enquiry owing to lack of any independent check of this data. The matter has been further complicated by the multiplicity of various grades of currency in the

(1) Reported in the Times of India, Bombay, dated 26-10-36.

country and various rates of foreign exchanges for the same unit of currency. The Reichsmark does not always mean the same thing in all transactions. The value of the Mark depends upon the nature of the transaction. Although Germany is still nominally on the gold standard, in practice she is far from it. There are more than 13 different Reichsmarks which enter into German accounts, and owing to this cumbersome multiplicity of currency units it is almost impossible to attach any value to German statistics.

The Economic Impact of German Policy

In addition to the unrealibility of German statistics, the reader is baffled by the multiplicity of laws which have come into existence in Germany in the recent years and he naturally asks what is the net result of this policy and what lesson it affords? We shall attempt below to outline the achievements of this increasing state intervention and shall try to find out what lesson it offers to countries like India or what are the possibilities—a question which is of more direct and vital importance to India—of developing better trade relations with these state-ridden European countries, and how far we can increase our trade by means of bi-lateral treaties or other such arrangements.

Rise in Agricultural Prices

The Nazi policy has been very successful—perhaps more successful than they want now—in increasing the prices of agricultural products.[1] Between 1933 and 1935 the price level of agricultural products rose by 40%. The Index Number for the price of wholesale agricultural products rose from 80.8 in January, 1933 to 108.8 in February 1936. The agricultural policy which the government adopted when it came into power has benefited the large scale producers more than the small farmer, as the large farmers were able to take immediate advantage of their surplus production while a small farmer had to consume a good deal of his production at the farm and had little to sell from which he could derive the

(1) For details see Rawlins, op. cit. chapter III.

benefit of rising prices; while he had to pay more for his needs when he had to buy them from the market. As a result of this policy German production increased in various directions and achieved self-sufficiency in many important products. The policy of autarky (it expresses the meaning more precisely than the English phrase economic self-sufficiency) has been pushed to its utmost extreme without any consideration of cost. As a matter of fact there is not a single important item in the import list which is not attacked and efforts are made to decrease the imports of those products by developing production at home irrespective of the cost of production. The efforts made by German authorities to produce many important commodities by synthetic means has increased the cost of production of those commodities several hundred-fold. This phase of autarky will be described in another section. Here we shall give figures to show the amount of self-sufficiency reached during 1934.

Ratio of Domestic Production to Total Supplies by Percentages[1]

Per cent.		
100-90	..	Coal, bread grains, vegetables, meat potatoes, sugar, oats, barley.
90-70	..	Rayon, timber, casings, bristles, casein, eggs, honey, fruit, milk products, wine.
50	..	Hides and skins, fish.
50-30	..	Non-ferrous ores, motor fuel, fats in general, nuts, feathers.
30-20	..	Iron ore, tobacco.
20-10	..	Flax, tanning material.
10-5	..	Textile raw materials in general, wool.
4-1	..	Oil seeds, oil cake and vegetable oils.
Less than 1 per cent.	..	Cotton, hemp, jute, silk, rubber, resins, shellac, etc.

But this partial autarky in many important products has not been reached without any sacrifices. Germany has had to pay a very heavy price indeed to achieve this end.

(1) Rawlins, op. cit. page 71.

We have already given a table on page 169 showing the difference between the prices in the German market and the world wholesale prices. The net achievements of this policy are described in the extract reproduced below by an impartial student of German Economics and has been quoted by Rawlins.

"From a commercial point of view—that is, regarding the country as a business concern among others in a world economy—is not Germany living on her capital? Has not the business boom based on work creation, rearmament and autarky been organised and it is not being maintained, at the cost of increasing her economic isolation from the rest of the world? Is not this policy causing progressive improvement and is it not already pressing hard on both the standard of living and export trade?"

Production of Synthetic Products

In spite of the heavy cost of production, desperate efforts are made in Germany to encourage the production of synthetic products in order to achieve autarky.

Motor Fuel

Motor fuel is an important basic commodity for any nation which wants to supply its own needs from within its own borders. Unfortunately for Germany there are few natural oil springs in the country from which a supply of this commodity could be obtained. But this absence does not discourage the enthusiastic advocates of autarky. On the contrary, increasing attention is devoted to the supply of this important item of warfare and industrial necessity, and tremendous efforts are made to encourage the synthetic production of petrol, benzol, and alcohol. The domestic production of petrol increased from 250,000 tons in 1934 to 365,000 tons in 1935. It is hoped to increase this production to about 600,000 tons by the end of 1936. The domestic production of benzol increased from 280,000 tons in 1934 to 380,000 tons in 1935. It was hoped to increase this to over 420,000 tons by the end of 1936. The production of domestic alcohol increased from 170,000 tons in 1934

to 180,000 tons in 1935, and it was hoped to raise it to 200,000 tons by the end of 1936.

Vigorous researches are being carried out in Germany to increase the synthetic production of rubber. The example of other products can be easily multiplied. India is particularly interested in the export of hides and skins to Germany but we must warn our exporters that there is little chance of any increase of our exports in this direction to Germany, or as a matter of fact even in our maintaining the status quo, for every possible effort is being made in Germany to make the country independent of foreign leather supplies. Domestic production of leather at the present moment supplies 50% of German needs, and efforts are being made to produce more leather by increasing the number of cattle and by encouraging substitutes for leather.

GERMAN TRADE POLICY

Import Trade

Free economic forces no longer play any important part in the trade policy of Nazi Germany. The import trade is very rigidly controlled by the state, which has created 27 centralised control boards, the prepondering majority of which have their offices in Berlin. Each board controls the import of those commodities which are specially allotted to it. For every import an Import Certificate has to be obtained from the respective Control Board which only grants it if it is considered that the import is necessary for the welfare of the country, and enough foreign exchange is available for its purchase. The object of this plan is to discourage unnecessary imports and to safeguard the balance of payments. One need not dwell here on the great hardship which this highly centralised and rigidly state-controlled system has imposed on German importers.

Owing to the presume of this policy, the imports of various commodities in which India is particularly interested has considerably declined in Germany. The import of wheat decreased from 71.8 million R.M. in 1933 to 14.7 million R.M. in 1935.

Decline in the Import of Wool and other Products

Between 1934 and 1935 the import of raw wool decreased from 322 million R.M. to 248 million R.M. Skins for furs decreased from 53.5 to 46.5 million R.M. and oil-seeds and fruits from 290 million R.M. to 155 million R.M.

Decline in the Import of Cotton.

The import of cotton decreased from 393 million R.M. in 1933 to 223 million in 1934, but again rose to 293 million R.M. in 1935.

The causes of this increase are not only interesting but also throw a good deal of light on the German trade policy. Therefore we shall describe it in some little detail. The German Cotton import trade has taken a new turn since the policy of bi-lateral trade agreements has come into force. The group of countries which was previously supplying cotton to Germany has suffered a great decline in their export of cotton while a new group of countries which has entered into bi-lateral agreements with Germany has gained a good deal. These changes were necessitated owing to diversity of international trade and because of foreign exchange restrictions. In 1933 three-fourths of German imports of cotton were supplied by the U. S .A. In 1935, the U. S. A.'s share was reduced to bear one-fourth. In 1935, Brazil, Argentina, and Peru supplied Germany with 40% of her cotton needs, although 2 years before their share was only negligible. Before we explain the cause of this diversity we shall give a table to show the change which has taken place in the import of cotton in Germany from various countries, and a decline in the share of the older group and a considerable increase in the share of the new group.

German Cotton Imports

	(In R. M. million)		
	1933	1934	1935
Total imports in value ..	293	231	293
	1933	1934	1935
	(In metric tons)		
Total imports in bulk ..	416,600	316,900	310,000

	1933	1934	1935
	(In metric tons)		
From old supplying countries—			
U. S. A. ..	313,100	189,800	74,900
India ..	35,700	34,800	27,900
Egypt ..	39,000	44,200	39,300
From new supplying countries—			
Brazil ..	—	8,300	27,900
Peru ..	9,700	11,300	25,200
Argentina ..	5,300	5,600	14,400
Turkey ..	600	5,700	15,200

It is interesting to note from this table that in 1935[1] Germany paid the same amount of money for 310,000 metric tons of cotton as she paid for 416,600 metric tons in 1933. It means that by paying the same amount she got 25% less cotton in 1935 than in 1933. This is the price which she had to pay for her clearing agreement system and state intervention. As already stated German import policy is not dictated by economic considerations but by contingencies of exchange. In the ordinary course the German balance of trade with the U. S. A. is passive. She has to pay America in gold, which is far from being in excess in Germany and consequently it became necessary for her to look for other avenues. Germany exported more to South American countries a few years ago than she imported from them. In order to increase her import and export trade she entered into clearing agreements with a group of South American countries as she could not receive the surplus of her exports in gold owing to exchange restrictions in the South American countries. The only avenue that was left to Germany was to increase her import of raw materials from these countries.

It is generally presumed in India that the Indian export trade has suffered in the German market owing to the Ottawa Agreement. Whatever may have been the other repercussions of the Ottawa Agreement, this much is clear from the statistics available, that the Ottawa

(1) Rawlins, op. cit. page 160.

Agreement had nothing to do with the decrease of our exports to Germany. The imports from India into Germany decreased from 153.9 million R.M. in 1933 to 121.3 million R.M. in 1935. We are not the only country to suffer. The U. S. A. which had no Ottawa Agreement suffered more than us. The total imports from the U. S. A. into Germany decreased from 482.8 million R.M. in 1933 to 240.7 million R.M. in 1935. Taking other Empire countries the total imports from Australia decreased from 105 million R.M. in 1934 to 35 million R.M. in 1935. The imports from New Zealand declined from 35.6 million R.M. in 1934 to 4.3 million R.M. in 1935. Canada, which provided wheat to Germany, found that its exports of wheat to Germany declined from 55½ million R.M. in 1933 to 37½ million in 1934 and disappeared altogether in 1935.

German Export Trade

The figures of German export trade are very interesting to the economic student as they clearly show the relationship between economic forces and state intervention, and the price which the Interventionist must pay for tampering with economic forces. Almost all students agree on this point that the blackest year of depression was 1932 and prices touched bottom that year. Afterwards the trend of the cycle began to change, and prices slowly began to rise. But in Germany we find that although the quantity of the goods exported in 1935 increased as compared with 1933, the prices received by German importers were less in 1935 for these increased goods than the prices for the smaller quantity, which they exported in 1933. The following figures may be studied with interest.

Total German Exports

	Million R.M.	Metric Tons.
1933	4,871,405	41,831,624
1934	4,166,878	45,217,759
1935	4,269,667	50,137,310

These figures do not reveal the whole situation in its perspective. The decline in some exports for example,

foodstuffs and raw material, was deliberately encouraged by the state under the items, (1) live-stock (2) foodstuffs and beverages (3) raw materials and semi-manufactured goods, there was a considerable decline which was compensated for by a tremendous increase in the export of manufactured goods, to encourage which the government took every possible step. But we find from the table given below that in spite of considerable increase in the amount of commodities exported, there was a decline in the price received for them. The causes of this decline are many, the principal ones being (1) subsidised dumping (2) desire to capture new markets (3) political considerations.

Export of German Manufactured Goods

	Tons	R.M. Million.
1933	4,214,101	3,787
1934	4,528,180	3,255
1935	5,557,668	3,418

Export Subsidies

It has been repeatedly pointed out in the previous pages that owing to the increasing intervention of the state in the economic life of the country, and severe restrictions which have been imposed on trade relations—and owing to scores of other laws which were enacted during recent years, the cost of production increased tremendously. It has been also pointed out that the increased cost of production has seriously affected the ability of the German exporters to compete in the markets of the world. Under these circumstances one would naturally expect a far greater decline in the export of German products to other countries, and when the reader is told that the decline has not been as serious as it should have been, he naturally asks why not? What were the other factors which checked the decline in the German export trade? The simple and brief answer to this is that heavy subsidies have been paid to the German exporters to

maintain their positions in the export markets. It is estimated that during the year 1935 over one milliard R.M. were spent on these subsidies.

Subsidy Schemes for Exports

Another natural question which the reader will ask is what is the source of these large subsidies and from where does the money come to pay such a large sum to the exporters? There are many sources which the German State is tapping to get this money, and some of them are very interesting and ingenious. In 1933-34 the main source of income for the payment of these subsidies was the sum of money which had accumulated in Germany owing to exchange restrictions which strictly regulated the payment of principal to foreigners on the accounts kept in German Banks and later a complete moratorium was granted. The natural result of these measures was that the value of these accounts depreciated to a very considerable extent as the holders of these accounts were not able to withdraw this money from Germany. Consequently they were prepared to receive anything in exchange of these accounts that they could possibly get. The nominal value of these accounts remained practically the same in Germany. Therefore the state encouraged the German nationals who had to receive payments from foreigners to purchase these accounts. The profits which the German nationals derived from these transactions had to be shared with the state, which used them for subsidising German exporters.

The rigid exchange regulations which the Nazi party enfored when it came into power resulted in great depreciation of German securities held abroad. A considerable amount of money was invested in these securities by foreigners who to their dismay found them valueless for all practical purposes, owing to exchange restrictions. However the prices of these securities remained nominally unchanged within the German borders, and the state again encouraged its nationals who could

command some funds abroad, to purchase them and then to repatriate them. The profits arising out of these transactions had to be shared with the state and this was the main source from which the export subsidies were paid. The German Moratorium Law of June, 1933, which provided that all debts due by German nationals to foreigners were to be paid in R.M. in Germany and then made available to foreigners in part cash but mainly in scrip certificates, further helped the State in collecting large sums of money, as these scrip certificates had little market outside Germany and were resold in Germany at heavy discount.

When these sources of income began to dry up another provision was made to provide subsidies for the exporters. This provision is styled as "Self-help": a levy is imposed on all industrial concerns (whether producing for the home market or for export) and the money collected from these securities is pooled together, and from this pool payments are made to those export industries which cannot compete in foreign markets without such help. The amount of the subsidy given depended on the nature of the industry. This in practice amounts to the fact that the consumer of industrial products at home has to pay a heavier price and has to bear the burden of these subsidies. The lot of the consumer in Germany is rather to be pitied.

Decline in Consumption

One need not mention here the decline in consumption of those articles which are considered as luxuries and comforts because no such things as luxuries are tolerated in the Nazi State. The consumption of even those necessaries of life which are absolutely essential for maintaining the health of the nation has considerably declined, and has resulted in lowering the standard of living of the masses at large. The following table shows the per capita decline in the consumption of important food stuffs in Germany.

Commodity		Unit	1929	1932	1933	1934
Butter	...	lbs.	15.9	16.3	17.6	15.3
Margarine	...	,,	17.3	17.6	13.0	12.3
Lard.	...	,,	8.1	8.1	7.6	6.7
Total Fats	...	lbs.	41.3	42.0	38.3	34.3
Eggs	...	Number	...	120	101	99
Beef and Veal	...	lbs.	43.0	37.2	36.1	40.7
Mutton and Lamb	...	,,	1.5	1.4	1.5	1.2
Pork	...	,,	67.5	68.1	70.1	77.5
Other Meats	...	,,	1.8	1.2	1.3	1.3
Total	...	lbs.	113.8	107.9	109.0	120.7

The increased consumption of meat in Germany in 1934 is due[1] to an increase in the consumption of pork, which was due to the increase in the slaughter of pigs and the comparative decline in their number, with the exception of the consumption of pork, the consumption of every other kind of meat was smaller in Germany in 1934 as compared with 1933. Now we find that there is a great scarcity of pork in Germany.

For comparative purposes it will be interesting to compare the consumption of these products during the same period in other countries where the restriction imposed by the state are not as cumbersome as in Germany, and for this purpose we will take the case of the United Kingdom, where the import duties are comparatively low and the state intervention considerably less. The table given below shows that there has been considerable increase in the consumption of these products in the United Kingdom.

British Consumption per Head in Lbs.

Commodity		1929	1932	1933	1934
Butter	..	17.8	21.8	23.5	25.2
Margarine	..	12.9	9.2	8.4	.9
Lard	..	8.6	8.2	9.1	9.1
Total Fats	..	39.3	39.2	41.0	42.2
Eggs.	..	..	150	149	152

(1) World Economic Survey, 1934-35. page 89. League of Nations.

Commodity		1929	1932	1933
Beef and Veal	..	70	64	63
Mutton and Lamb	..	28	31	34
Pig Meat	..	40	49	48
Total Meats	..	138	144	145

These figures and other matter contained in these pages provide a good deal of food for thinking for those of us who always enthusiastically advocate state intervention.

CHAPTER V

THE NEW DEAL

IN the previous chapter we studied some of the economic consequences of State Intervention in economic life in Germany. But the case of Germany is rather a peculiar one. All the activities of the state in Germany are not diverted to achieve economic ends; but in the main their energy is devoted to achieve political and cultural ideals. This confession is made by the German state openly. Moreover Germany being under a dictatorial regime helps little in giving any guidance to a country like India which is treading the path of democracy. For this we have to look to the United States for our guidance and inspiration, and from her lesson we shall try to find out how far the system of Government Economics can be adopted in this country.

The measures of the New Deal are of special interest to us in India for two main reasons. (1) The U.S.A. is a democratic country and the laws have been enacted by the "Will of the People." (2) The main plea of these laws is economic as they proclaim to achieve Recovery and Reform.

What is the New Deal?

Before going any further into the matter it is desirable that we should clarify the meaning of the New Deal. Strictly speaking there is no such thing as the New Deal in any statutory form and no specific act has been given that name. When President Roosevelt came to the White House in March, 1933, America (the U.S.A.) was in the very depths of the blackest depression unprecedented for its prolongation in her previous history. She was

passing through the darkest days of her existence. There have been many depressions in her previous history, but none was so long and severe in its impact, and universal in its demoralising influence. It affected almost every aspect of economic life. Unemployment had reached the undreamt of figure of over 12 million. The national income had fallen 50% below the peak figure. Naturally this resulted in a decrease in taxes. The receipts from income tax decreased from $2411 million in 1929-30 to $746 million in 1932-33. The decline in the income of the farmers (who even in the normally prosperous years were grumbling) further aggravated the matter. The net income of the farmers declined from an average of $6829 million in 1923-29 to $2573 million in 1932 and the gross income fell from $9454 million in 1930 to $5331 million in 1932. The total value of the farm real estate fell from $66316 million in 1920 to $30515 million in 1933. The tremendous fall in the value of farm real estate decreased the equity of the farms and seriously increased the burden of debt. The great disparity in the prices of farm and industrial products which was to the great disadvantage of the farmer further decreased his purchasing power for industrial goods and accentuated the depression in industry.

The continued export of gold from the country after 1929 resulted in severe deflation, and curtailed credit and increased the burden of debt. The wholesale failure of banks added further fuel to the fire. The Hawley-Smoot tariffs of 1930 increased the already too heavy tariffs to almost prohibitive levels and seriously affected the trade. The importing countries retaliated by increasing their own barriers and the American exports were seriously affected. To sum up, when President Roosevelt took charge, unemployment had reached the highest possible level. Prices had fallen to the bottom of the pit. Severe deflation was going on, banks were failing at a wholesale rate, and the foreign trade had considerably dwindled. President Roosevelt had to deal with this serious situation. He believed that the situation

was alarming and required abnormal measures to combat it. The various laws that have been passed to fight this depression, to achieve recovery, and to reform the existing system, are popularly called the New Deal. These laws are many and deal with a variety of subjects, such as Banking, Gold, Silver, and Paper Currency, but the two most widely known measures of the New Deal are:—(1) The National Industrial Recovery Act of 1933 and (2) The Agricultural Adjustment Act of 1933. As their names indicate the former deals with measures relating to industrial recovery and reform, while the latter proposes to do the same thing for agriculture.

Some of the Important Laws of the New Deal

It is a most formidable task to give even the barest description of the New Deal Laws within the scope of a single chapter. Moreover it will not serve any really useful purpose merely to summarise all the matter that is easily available elsewhere. Here we shall briefly describe some of the most important measures in order to properly estimate their value and to see what results such measures have achieved.

The Federal Emergency Relief Act

This Act was passed in March, 1933. This is the first Act which the new Congress passed in its first meeting and is one of the principal measures of the New Deal. The immediate cause which led to the passing of this law was unemployment, which was increasing at an alarming rate all over the country and was causing havoc. Millions of families were left destitute without hope of finding any employment and without means of subsistence. It is interesting to note that in a highly developed country like the United States there was no system of insurance of unemployment or any other such system to render assistance to the unemployed. As a matter of fact under the influence of rugged individualism such measures of state interference were looked upon with scorn in the U. S. A. and it was even proclaimed with pride that the country had no need to

worry about any such measures, as it was presumed that in the normal course of time every able bodied person would be able to procure employment. It does not mean that no unemployment existed in the United States before the depression. On the contrary there have always been a few millions unemployed in the country, but it was considered that unemployment was only of a makeshift nature, or at the most, seasonal.

In the Eastern States of the country which had been under British influence in the earlier days, there was in existence a Poor Law based on the Elizabethian model, but it was not meant for able-bodied persons. The only system of relief that existed in the country before 1932 was the limited responsibility of the individual States to help the unemployed in certain cases, but that too was confined to only four out of the 48 States of the Union. The principal source of relief was the private charity which was extended to the suffering people by generous-hearted individuals and charitable institutions. Such persons and institutions can render useful help at normal times when the demand on their funds is rather limited. But at a time of crisis when panic is universal and the number of those who suffer is huge, private individuals and charitable institutions can hardly bear such a heavy burden. To give a concrete example, in the 70 largest cities of the country, the number of persons who received private charity was 40,000 in the winter of 1928-29. It increased to 70,000 in 1929-30, and to 500,000 in 1932. Private institutions which used to spend about a million dollars on such relief per month had now to find 10 million dollars per month—a sum which was absolutely beyond their means.

Increasing pressure was brought on President Hoover to tackle this serious problem but his individualistic philosophy did not permit him to embark on any bold programme of State relief. All that he did was to authorise the Federal Treasury to lend a sum of $300 millions to the States to open relief works. This sum proved just a drop in the ocean.

The Volume of Unemployment in the U. S. A.

The volume of unemployment in the U. S. A. cannot be determined precisely as no reliable statistics are available on the subject. In the absence of any reliable figures one is left to guess work. The guess work figures have been estimated at between 10 and 15 million in 1933, but to be on the safe side we can assume that the figure was in the neighbourhood of some 12 million.

Relief Measures

It required bold measures to provide any tangible relief to such a vast proportion of the populace. The Federal Emergency Relief Administration (F.E.R.A.) was set up in May, 1933, to provide relief to the unemployed. Owing to constitutional limitations it was not possible for the Federal Government to undertake the responsibility directly. So it was entrusted to the States to execute this work. As all the funds provided for such work came from the Federal Treasury, the Federal Government was able to exercise a good deal of influence in directing the use of these funds. Each State set up a Relief Administration which was guided in its plans by the F.E.R.A. In contrast to the British system of Unemployment Relief no dole was given. The persons receiving help had to do some sort of job and most of these jobs were only "made work jobs." The amount of money paid in 1933 to each family was $15.15 which went on gradually increasing and stood at $30.45 in January 1935. The administration was confronted by great difficulties in finding work for these unemployed persons. If a job was of any productive nature it competed with private concerns which had to pay standard wages to their workers. Naturally there would have been very strong opposition from the private interests as it would have led to unfair competition. On the other hand work of unproductive type was a mere waste of time. Another difficulty was to provide jobs to suit the unemployed persons, as they belonged to different professions and would have been useless misfits in professions other than their own.

Change of Policy

The policy of creating useless work was changed at the end of 1935. The F.E.R.A. ceased to function. The Federal Government abandoned their policy of providing funds to the States and themselves undertook to provide work for 3½ million able-bodied unemployed persons. All other persons were left to the care of their own respective States.

Works Progress Administration (W.P.A.)

The policy of pure and simple 'make work' was abandoned in December 1935, and W.P.A. was set up to carry out the new policy of the Government, which was half-way between the policy of relief work and the policy of full public works. The unemployed were entrusted with some work, but such work did not yield any monetary income to the state, nor did it give any dividends in cash for money spent on it. But it was a source of aesthetic pleasure and resulted in social welfare . The cost of relief increased from $33.45 per family (which is the figure for make work type of relief) to $80 per month per man. But it is considerably less than the figure for public works which is $206 per month per man— which is the full wage for the skilled workers in the U. S. A. It must be borne in mind that a relief programme of such a nature can be carried out only by countries having huge sums of money at their disposal, and it is a luxury in which only a very rich country can indulge. Providing relief to millions of unemployed is rather an expensive proposition. During the 3 years, *i.e.*, 1933-1934-1935 the total money spent by U. S. A. on relief (omitting sums spent on special schemes) was $4353 million. This means an average monthly expenditure of $121 million. Of this total sum the Federal Government contributed 70.9%, the States 12.8% and the local authorities 16.3%. The major proportion of this money was not raised by taxation but was borrowed. Only 16% was raised by taxes.

Public Works

The difference between Public Works and Relief

Works must be clearly understood. Public Works in contrast to Relief Works are organised as a normal function which the state has to undertake owing to the nature of such works, for instance, the building of roads, streets, bridges, etc., which cannot be undertaken by any private agency on its own initiative, as the advantage derived from such work does not yield any direct income. But on the whole such works are considered to be productive because they lead to efficiency. Good roads are more than an asset to any civilised country, and the indirect revenue derived from such works is far greater than the money spent on them. There are other types of Public Works which yield direct benefit to the state, such as Post Offices and other quasi-monopoly industries of the local bodies. In contrast to Relief Works which are carried out only as a measure of expediency and are of an abnormal character, Public Works are carried on as a normal measure by most of the civilised countries. Even before the depression the U. S. A. Government was spending a good deal of money on Public Works. During the normal years 1923-29 it was spending 3,065 millions a year and 47% of this expenditure was for roads, streets, and bridges. The U. S. A. possesses one of the finest road systems in the world. Although the ultimate aim of Public Works is not to create employment their immediate effect is that they do create work. During the Hoover regime great attention was directed to Public Works as a work-creating agency. The help of the Federal Government was necessary in carrying out the programme of Public Works on the impact of depression, as the States were left with depleted treasuries. During the early years of depression much hope was pinned on this constructive type of work to create work for the unemployed.

Emergency Relief and Construction Act

This Act was passed by the Hoover Government which authorised the Reconstruction Finance Corporation (R.F.C.) to lend up to $1500 millions to States and Cities for Public Works. But much advantage was not taken

of this Act as it laid down that only such works should be undertaken which would be self-liquidating, and the rate of interest which was demanded by the R.F.C. was so high that it did not tempt many States to borrow money to any considerable extent. By the end of 1933 only $60 millions were borrowed.

The National Industrial Recovery Act (N.I.R.A.)

The Roosevelt Administration attached great importance to the policy of increasing Public Works and passed the National Industrial Recovery Act. The N.I.R.A. authorised an apportionment of $3300 millions for Public Works, and the Federal Emergency Administration of Public Works, which is better known as P.W.A., was set up to carry out this programme of Public Works. However all the money was not available to P.W.A. Various amounts were apportioned to other agencies carrying on works of a similar nature. The P.W.A. received only 711 millions which sum was later increased to $1291 millions. The P.W.A. was authorised to give grants and loans to the States which were prepared to start new Public Works. Between 1933, and 30th April, 1936, $39000 millions were spent on Public Works, of this $1291 millions were apportioned to the P.W.A., $1567 millions were spent on construction projects of the Federal Departments, $395 millions came from the revolving fund, and $723 millions were spent by the States and Municipalities. The following table shows the distribution of expenditures in various types of works.[1]

	Amount (millions)	Per Cent. of total
Public buildings	929	23.8
Roads	620	15.9
Dams, etc.	387	9.9
Sewage systems	336	8.6
Bridges, etc.	314	7.8
Ships, (including naval vessels) ..	265	6.8
Aids to navigation	257	6.8
Railroads	201	5.1

(1) Gayer, A. D., Public Works in Prosperity and Depression. pp. 51, 62.
51. 62.

	Amount (millions)	Per cent. of total
Waterworks	194	5.0
Housing	133	3.4
Power (other than water power) ..	42	1.1
Aviation	30	0.8
Miscellaneous	192	5.0
Total ..	3,900	100.0

Considering the magnitude of the country and its vast resources, the amount of money spent on Public Works is by no means enormous. In foreign countries the magnitude of the Public Works has been greatly exaggerated in the U.S.A. and the amount of money spent on such works. As a matter of fact the U. S. A. was spending just as much on Public Works during the normal years 1923-29. All that the Roosevelt Administration has done is that it has prevented a decline in this expenditure. As far as the increase in employment by such work is concerned it has also been very greatly exaggerated. As a matter of fact works of this type are not suited as avenues of increasing employment in proportion to the money spent on them. To keep a worker employed in Public Works costs much more than to provide a person who is on the Relief Work.[1]

THE NATIONAL INDUSTRY RECOVERY ACT (N.I.R.A.)

Industry and Labour

Without any fear of sweeping generalisation it can be said that the entire New Deal has some direct or indirect relationship to the problems connected with industry and labour. The cardinal principle of the New Deal is to achieve recovery in industry and to better the position of the industrial worker. Even a law like the Agricultural Adjustment Act (A.A.A.) which apparently is quite separate and seems to possess no relationship to industry and labour, reveals a closer relationship to industry on minute observation. Under the A.A.A. efforts have been made to procure better returns to the

(1) For comparative costs see pp. 198, 199.

agriculturist so that he should revive the demand for industrial products. The N.I.R.A. is a very comprehensive measure and deals with every aspect of industry. "The N.I.R.A. probably collects more divergent economic and social theory under the roof of a single enactment than any other piece of legislation."[1] It is by no means an easy task to give a clear verdict about the achievements of this Act. Owing to its various contradictory provisions and hosts of other complicated regulations that have been passed in this connection, it becomes an almost superhuman task to judge its real value. The contradictory nature of its laws can be seen from the fact that it tries to raise the prices of industrial products by eliminating cut-throat competition and by introducing codes of fair competition, and at the same time increasing the employment of labour by increasing the wages paid to labourers and reducing the hours of work. The idea underlying the reduction of hours of labour was to give a chance to those who were without work, it also introduced elements of social welfare, such as the prohibition of child labour, the natural result of which was to increase the price of adult labour. As a result of this the cost of production was increased, which resulted in serious handicap to the revival of industry. This Act is also considered as the Magna Carta of American labour, as for the first time in the histroy of America, it recognised the principle of collective bargaining of labour. It need not be said here that various influences and forces exerted their pull in passing this act. The provisions relating to fair competition were the result of influence exerted by trading and commercial organisations, and the provisions relating to collective bargaining were inserted by the pressure which the organised labour brought about on the Administration. It may not be irrelevant to point out here that the Secretary for Labour in the first Roosevelt Administration was a lady whose entire life has been spent in organising labour, and it is the first time in the history of U. S. A.

(1) The Economist. The New Deal Supplement page 8. 3-10-36.

that a woman has been given such a high post in the Administration.

Working of the N.I.R.A.

The working of the N.I.R.A. was entrusted to the National Recovery Administration (N.R.A.). The N.I.R.A. in itself was complicated enough but the N. R. A. made this confusion worse. During the two years of its working it made 546 Codes and 185 Supplement Codes. Each industry was to have its own Code and those who cooperated with the administration in the working of these Codes were allowed to use as a sign a Blue Eagle, which was supposed to be a herald of recovery. The chief defect in the administration of these codes was that the bodies appointed to administer them were solely representative of the employers, and as a consequence the interest of the consumer was entirely overlooked. Moreover these Codes came into existence in such a hurry that no opportunity was available for studying the problem in the proper way. In brief these Codes can be described as an experiment in the self-government of industry. The great drawback in the organisation of these Codes was that most of them remained only on paper and even in those that were enforced the supervision of their working was far from satisfactory. The Administration was reluctant to interfere and to bring the breaches to the Court, owing to a lurking fear of the inability of the Codes to stand the test of validity before the Supreme Court.

The Achievements of the N. I. R. A.[1]

The two years working of the N. I. R. A. and the results achieved by it are of peculiar interest to countries like India which from a distance are likely to be blinded by the dazzle and glare of such high-sounding enactments which seem to achieve a Utopia on paper. Great hopes were pinned by the Administration, and many others to these revolutionary and heterogeneous measures, for bringing the country from the depths of depression on to

(1) The N. I. R. A. was unanimously declared unconstitutional by the Supreme Court in May 1935, and consequently all codes brought about by the N. I. R. A. were abolished.

the surging waves of prosperity. It cannot be denied that the Act exerted a good deal of psychological influence in restoring confidence at a time when the country was in the blackest depths of depression. It gave a glimmering hope to the tottering nation, and the great attention of the Press that it attracted, both at home and abroad, made the man in the street think that something really great was being done for the country. The reforms that this Act introduced were really long overdue and had a very beneficial effect. But the net economic results achieved by this Act are far below expectations and are far from satisfactory. In estimating the economic benefits derived from this Act we must bear in mind that the cycle of depression had already reached its lowest ebb and its ascendant was bound to come in course of time. This fact is confirmed by the economic revival in other countries of the world after the middle of 1933. Even without the comprehensive measures of the New Deal, the U. S. A. was bound to show some improvement with improving world conditions. This is a fact of great significance and must not be overlooked in estimating the benefits of this Act. Scores of other countries have recovered without New Deals and the U. S. A. would have hardly been an exception.[1]

The immediate effect of these codes was a rise in prices. A rise in prices was very desirable but this unfortunately decreased the demand. The effect of this decreased demand was more pronounced in building industries, where the rise in the prices greatly reduced the demand for houses and delayed the resumption of other construction works, which further aggravated the depression. But it must be borne in mind that this Act did not cover all branches of industry and it is rather difficult to calculate its effects on industry as a whole. On the other hand fear has been expressed that if its enforcement had been as rigid and its application as universal as was desired by the Administration, matters would have been worse. Some authorities go so far as to say that

(1) On pp. 211-12 we have given a table comparing U.S.A. and U.K.

the revival of industry has been due to the negative effects of the N. I. R. A. "Had every trade become a virtual monopoly, industrial production must inevitably have been still further restricted. In the event there was little effect of this sort. Under this heading (N. R. A. as a recovery measure) then, the N. R. A. can be acquitted of any widespread and serious hampering effect on recovery, but it scores its aquittal only by virtue of its ineffectiveness."[1] A great fuss has been made of the N.I.R.A. as to its beneficial effects on labour and in restoring and creating employment. How far the prosperity of the country is due to the N. I. R. A. cannot be said with any precision. There was more than one factor working to bring about the better conditions. The first and the foremost factor was the international situation which was gradually improving and most other countries especially the sterling block, were making rapid strides towards recovery. In the U. S. A. itself various other factors were working, such as cheap money, credit expansion (especially after the devaluation of the dollar) currency depreciation, agricultural reconstruction (not so much owing to the heroic efforts of the A. A. A. but due to the havoc caused by serious droughts). But the net effect of the N. I. R. A. on workers was far from satisfactory. "This is the fact that whereas labour cost (as measured by hourly wages) is now higher than the 1929 level, the money income of the wage-earner is only 85 per cent. of the 1929 amount. It is hard to resist the conclusion that this discrepancy has been a drag on recovery. The American worker has gained in leisure; but it may be that he has paid a heavy price for his leisure either in unemployment or in lower real income. As a recovery measure it is very doubtful whether N. R. A. was more help than hindrance."[2] There is one irresistible conclusion to which the study of the working of the N. I. R. A. forces us and it is thus: that mere legislative enactments, however comprehensive and thorough they may be, cannot solve the ills of the nation. Any recovery

(1) Economist. op. cit. page 8.
(2) The Economist 3-10-36. page 9.

which is to last must come from within, otherwise the patient will become addicted to artificial drugs, which may restore him to energy as long as their stimulus remains powerful, but such drugs drastically undermine the natural vitality and energy of the patient and in the long run cannot have anything but painful results. It is interesting to note that the abolition of N.R.A. did not affect the country in any way, nor did it retard its upward progress. Even the theoretical structure of this huge measure was far from sound. To cure a depression and to achieve prosperity by curtailing production is no permanent remedy. If this is pursued to its logical end it means we can have infinite prosperity by producing nothing and we can raise the price of any conceivable commodity by making it scarce. "Few economists would advocate the cure of industrial depression by further restriction of production, the remedying of the disparity of price between raw materials and finished goods by increasing the cost of production, the stimulation of the demand for labour by an artificial increase in its supply price. But in practical administration the N. R. A. was even more muddled, incoherent, unprincipled than in its basic theory. It may perhaps be concluded that the N.R.A. brought some benefit (chiefly in the shape of shorter hours) to the worker in employment, but this benefit would be cancelled out if it could be shown that N.R.A. hindered the reduction of unemployment. It brought benefits without doubt to labour organisation; but in the present state of affairs it is doubtful how far this is synonymous with benefits to the working man. To the movement of recovery as a whole, N.R.A. was almost certainly a definite hindrance."

Comparison with Great Britain

When we compare the achievements of the New Deal with the conditions of industrial recovery in Great Britain we are rather disappointed. The U. S. A. in spite of its multifarious laws has not been able to achieve as much recovery as Britain. The following table which gives comparative statistics of industrial recovery in

Great Britain and the U. S. A. may be studied with some profit:—[1]

Industrial Production

	U. S. A. Mean years of 1923-25=100	Great Britain 1924=100
1923	102	—
1924	94	100
1925	104	97
1926	108	75
1927	106	108
1928	110	102
1929	118	111
1930	96	98
1931	81	84
1932	64	85
1933	77	90
1934	79	102
1935	90	108

Agriculture and the New Deal

To a country like India which is predominantly agricultural, those measures of the New Deal which relate to agriculture are perhaps of more interest than any other measures. The principal act of the New Deal which relates to agriculture is the Agricultural Adjustment Act, the main provisions of which have already been discussed in another section.[2] One aspect of the New Deal must impress the Indian reader and that is the magnitude of these measures and the great rapidity and the boldness with which they have been executed. At the same time there is another aspect, and perhaps the most important aspect which we dare not overlook, and that is the great wealth of the United States of America. We

(1) Quoted by Sir William Beveridge. Planning under Socialism. page 125. Longmans, London, 1936.
(2) See page 134.

dare not expect to follow in the near future the example of the United States which has spent unbelievably huge sums of money in the execution of its recovery plans. Our resources are strictly limited and however laudable a measure may be and however potential its power in achieving recovery, we cannot indulge in this fast money spending game. Some idea about the money spent on the agricultural adjustment programme can be had from the following figures:—

RECEIPTS—

ADVANCES FROM TREASURY IN ANTICIPATION OF COLLECTION OF PROCESSING TAXES:—

Cotton credits	... $115,000,000,00		
Wheat credits	... $104,075,000,00		
Tobacco credits	... $2,060,000,00		
Hogs credits	... $48,500,000,00		
Milk and its products cerdits...	$11,250,000,00		
Refunds of taxes	... $500,000,00		
Administrative expenses— tax provision	... $3,500,000,00	$284,885,000,00	
Appropriation under section 12(a) of Agricultural Adjustment Act Administrative expenses and rental benefit payments ...		$100,000,000,00	
Transfer under National Industrial Recovery Act—Bankhead fund Vorn-hog program ...		$37,000,000,00	$421,885,000,00

(*Continued on page* 151)

(*Continued from page* 150)

B/Over ...				$421,885,000,00
DISBURSEMENTS.				
Administrative expenses ...			$6,272,230,00	
Rental-benefit payments— ...				
Cotton ...		$111,405,244,87		
Wheat ...		$18,396,794,50		
Tobacco ...		$1,274,448,13		
			$131,076,487,50	
Removal of surplus agricultural products — ...				
Wheat ...		$465,939,08		
Hogs ...	$33,448,400,69			
Less reimbursement by Federal Surplus Relief Corp. ...	$948,542,15			
...		$32,499,858,54		
Milk and its products ...		$9,414,033,37	$42,379,821,99	
Transfer to other deptts.				
Bureau of Internal Revenue refund of taxes. ...		$500,000,00		
Bureau of Internal revenue administrative expenses ...		$3,500,000,00		
Treasure of United States administrative expenses ...		$25,000,00	$4,025,000,00	$183,753,540,41
Balance. In treasury of United States and to credit of disbursing officers ...				$238,131,459,59
				(1)

(1) Agricultural Adjustment—A report of administration of the Agricultural Adjustment Act, May, 1933 to February 1934. page 277

These figures are really very staggering and are even beyond our comprehension. We also must not forget that they relate only to one branch of the New Deal.

Critical Estimate of the Agricultural Adjustment Act (A.A.A.)

It is rather difficult to estimate properly the value of the A.A.A. as a recovery measure. There is no doubt that the farmers derived a tremendous amount of direct benefit from the disbursements made by the State. Millions of dollars were literally poured into the farmer's pocket. It would have been rather interesting to find out its net achievements, but unfortunately (or fortunately) the nature came to the help of some farmers. The work which the Federal Treasury could not achieve in the course of many months and by spending millions of dollars was achieved by the drought. There was an almost wholesale failure of crops. The huge accumulated stocks soon vanished, prices went up, and the United States had to import certain commodities which were previously accumulating at a fast rate and were depressing the prices. Whatever its effects may have been on agriculture this much is certain, that it provided remunerative work to many university graduates and other educated unemployed persons. Over 3,000 persons were engaged by the A.A.A. to carry out its work.

The Emergency Farm Mortgage Act

This Act was passed to provide relief to those farmers who were suffering under a heavy burden of debt and whose creditors were threatening to foreclose their properties and evict them.

The Farm Mortgage Situation

The total farm debt in the United States on 1st January, 1932, was estimated by the U. S. Department of Agriculture as $12,000,000,000.[1] The farm mortgage debt approximated to $8,500,000,000 and the short-term commercial bank loans $2,000,000,000. The remaining

(1) The Farm Debt Problem, U.S.A. Department of Agriculture, House Document, No. 9, 73rd Congress.

$1,500,000,000 was merchant credit and other short-term debt. The latest detailed data on farm mortgage indebtedness is for 1st January, 1930. At that time it was estimated at $9,241,390,000 or two and three-quarter times the 1910 farm mortgage debt. From 1910 to 1928 farm mortgage indebtedness was constantly increasing, but since 1928 it has declined.

Based on the 1910 debt figures as 100, the index for farm mortgage debt in 1920 was 236.6, in 1928, 285.2, in 1930, 278.3, and on 1st January 1932, 256.[2] Most of this debt was incurred when land values had risen to high levels. The total value of farm real estate fell from $66,316,000,000 in 1920 to $30,515,000,000 in March, 1933. The immediate post-war break in prices was enough for any farmer to withstand. But the serious decline in the prices of agricultural products since 1929 made his position go from bad to worse. The reason for his inability to pay his debt is obvious. When he borrowed money he was selling his crops at fairly remunerative prices. But when he had to pay the debt he was not receiving even the cost price. If he borrowed when the index number of commodities which he sold was 110, and had to pay in 1932, when the index number of these commoduties had fallen to 43, the amount which he had to pay in commodities then was almost three times the amount when he borrowed. And some of his commodities could not be sold at any price.

When President Roosevelt came to the helm he realised that it was more important to relieve the mortgage situation than to organise a permanent institution. After three years of falling prices the farmers were threatened with bankruptcy. The number of foreclosures and defaults in payments was rapidly increasing. In order to give a breathing space to the farmers who were being crushed by this heavy debt, the Emergency Farm Mortgage Act was passed, which received executive approval on 12th May, 1933.

(1) For further information see my book "Agricultural Credit," Pitmans (London), 1936.

The Federal Land Banks and the Emergency Farm Mortgage Act

The Emergency Farm Mortgage Act makes the following provisions:—

1. It permits the federal land banks to make loans direct to borrowers in certain areas. Previous to the enactment of this Act all federal land bank loans were made through the national farm loan associations. But owing to the depression many of these associations were in financial difficulties, and were not permitted to make new loans. There was a great demand for credit by farmers which could not be provided owing to the strict rules of the Federal Farm Loan Act. This Emergency Farm Mortgage Act made it possible for those farmers, who were not served by an active farm loan association, to get loans directly from the federal land banks. However, such direct borrowers had to subscribe to the stock of the federal land banks to the extent of 5 per cent. of their loans, and had to pay a rate of interest 1 per cent. higher than that paid by the farm loan associations.

2. The Act granted interest reduction to federal land bank borrowers for a period of five years. The Act provides that the interest rate be 4½ per cent. until 12th July, 1938. This reduced interest rate is only applicable to those loans which were in force on 12th July, 1933, and also to those made up to 12th May 1935. The loans made direct to borrowers will bear 5 per cent. interest. After 12th July, 1938, the interest rate will revert to the original rates borne by the loans.

3. It allows federal land bank borrowers to postpone principal repayments on farm mortgage loans. Default in payment of their annual instalments became common during the period of depression, and it was realised that it was very hard for the farmers to continue their payments. In order to give partial relief, this Act provided that farmers who had already borrowed money from the federal land banks, and would borrow up to 12th May, 1935, would not be required to make any payment on the principal of these loans before July, 1938, provided their

loans were in good standing, and the postponement sanctioned by the federal land bank.

4. The Act allows the federal land banks to grant extensions to worthy borrowers, and to re-amortize such extensions. "The interest reduction, and extension of principal payments mean a great deal to the borrower who obtained one of the first land bank loans. For example, a certain farmer in 1917 obtained a $3000 loan having 5 per cent. interest. He has paid thirty-two semi-annual instalments of $90. The last one was $57.75 interest and 32.25 principal. Now for five years his payments are reduced to $51.8, the interest at 4½ per cent. on the $2310.12 principal which he still owes on the loan.[1]

5. This Act also makes provisions whereby farm mortgage loans may be made for as much as 75 per cent. of the appraised value of the farm improvements and personal property mortgaged. It also makes provision for loans to be made on second mortgages provided the total value of the loans does not exceed 75 per cent. of the value of the property offered as security. Under the provisions of the Federal Farm Loan Act, loans cannot exceed 50 per cent. of the value of the property offered as security and 20 per cent. of improvements. This liberal increase up to 75 per cent. and the important provision of a second mortgage had to be made in the Emergency Farm Mortgage Act in order to enable farmers to refinance their indebtedness. It should be noted here that this extension applies only to those loans that are made by the Land Bank Commissioner under the provisions of the Emergency Farm Mortgage Act from the funds placed at his disposal by the Reconstruction Finance Corporation, i.e., $200,000,000.

The maximum amount of such a loan was first limited to $5000, but has later been increased to $7500. The total funds at the disposal of the Land Bank Commissioner for such loans are limited to $200,000,000. It has been possible to make such liberal provision in these loans

(1) Address delivered by Myers, W. I., Governor, "Farmers' Credit Administration."

as the funds are not raised from private investors, as in the case of funds for federal bank loans, but are provided by the Federal Government through the Reconstruction Finance Corporation, which is a state-owned corporation.

Purpose of the Loans

Loans are made by the Land Bank Commissioner for the following purposes:—

1. To refinance any indebtedness, secured or unsecured.
2. To provide working capital for farming operations.
3. To enable a farmer to re-acquire farm property lost by foreclosures.

Second Mortgage Loans

In order to help farmers to get the maximum loans authorised by law, a provision was made in the Emergency Farm Mortgage Act that, in addition to loans borrowed from the federal land banks (which make advances up to only 50 per cent. of the value of the security) or other sources, they could raise loans from the Land Bank Commissioner on second mortgage up to 75 per cent. of the value of the property offered as security. When loans are secured by second mortgages upon farm real estate, the borrower has to obtain the agreement of the holder of the first mortgage to the following conditions:—

1. That during a period of three years he will not proceed against the mortgagor and|or the mortgaged property for default in the payment of principal unless, in the meantime, the Commissioner consents in writing to such proceeding; and

2. That he will notify the Commissioner in writing, at his office in the district in which the property is situated at least thirty days in advance of the institution of any proceeding against the mortgage and|or the mortgaged property.[1]

(1) For detailed description, see Farm Financing through Farm Credit Administration, mimeographed Circular prepared by the Farm Credit Administration of St. Louis, page 11.

Refunding Indebtedness

A major number of loans obtained by farmers during 1933 was for the purpose of refinancing farm indebtedness. "More than 85 per cent. of the proceeds of loans made by the Federal Land Banks and more than 90 per cent. of the proceeds of loans made by the Land Bank Commissioner are being used for refinancing purposes."[1]

In many cases it was found impossible to refinance farm indebtedness even with the additional loans obtained from the Land Bank Commissioner. In such cases it was found necessary to make a compromise between the debtors and creditors, and to scale down the debts. There is no compulsion in this matter, but many creditors have been only too glad to make considerable concessions in view of getting cash. Data available on 1st December 1933, indicate that approximately 17.6 per cent. of the Land Bank Commissioner's loans have involved a scaling down of debts. The average amount of the reduction of indebtedness in these cases has been about 23 per cent. of the original amounts owed.

The corresponding figures for the farmer obtaining federal land bank loans indicate voluntary reductions by creditors in approximately 81.6 per cent. of the original cases of indebtedness.

In view of the gravity of the situation in October, 1933, the Governor of the Farm Credit Administration sent requests to the Governors of all States to appoint State and County debt adjustment committees to work out fair debt settlements by conciliatory methods in cases where farmers were helplessly involved. This appeal received a liberal response from the Governors of the various States, and by the end of 1933, thirty-nine out of forty-eight States had appointed debt adjustment committees, and more than 2,000 counties had debt adjustment bodies working under the direction of a State committee. These committees have brought some relief to many sufferers.

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(1) First Annual Report of the Farm Credit Administration, page 11. (1933).

Emergency Aid in Threatened Foreclosures[1]

The ordinary process of making a mortgage long-term loan is a slow one. But the critical condition of farmers, and the rising trend in foreclosures of properties, required that the usual process should be expedited, and some new steps should be taken to save farmers from losing their farms. Consequently, early in October, 1933, the Governor of the Farm Credit Administration undertook to give special assistance to farmers who were in danger of losing their farms through foreclosures, and a small section was established in the Farm Credit Administration to deal quickly with such emergency cases. A special committee for this purpose was organised in each of the federal land banks.

On 22nd October, 1933, President Roosevelt, in a radio speech, appealed to holders of farm mortgages to withhold foreclosure proceedings in order to give farmers an opportunity to refinance their debts by means of loans from the federal land banks and the Land Bank Commissioner. He also advised farmers, who were in danger of losing their farms, to inform the Farm Credit Administration either by letter or by telegram. Soon after this appeal the Farm Credit Administration began to receive about 300 letters and telegrams every day, and every effort was made to take immediate steps to help such farmers, if they had good security to offer. In cases where they were hopelessly involved creditors were asked to scale down their debts.

Working of the Land Bank Commissioner's Loan

Shortly after passing the Emergency Farm Mortgage Act the Land Bank Commissioner appointed an agent in each federal land bank district to handle loans. Separate offices were established by these agents to conduct their business, but they utilised the federal land banks and their valuers for valuing the farm property offered as a security for loans. Separate application forms were required for these loans, and for all formal purposes it was a separate office rather than a department of the federal

(1) See Farm Credit Administration Report for 1933-34 op. cit. page 12.

land banks. Farmers requiring loans from the federal land banks as well as from the Commissioner, were required to give two separate application forms, and had to pay two application fees. This led to inconvenience and duplication. In order to remedy this defect the federal land banks were made agents for the Commissioner on 25th August, 1933, and for all purposes the Commissioner's office became a regular department of the federal land banks, and a combination application form for handling both loans was prepared.

Amount of loans

The number and amount of farm mortgage loans made in 1935 were very much smaller than in 1934. Only 91,004 Commissioner loans totalling $196,400,000 were made during 1935, compared with 306,354 loans for $553,100,000 in 1934. This indicates that the emergency has passed.

Additional Funds

In the earlier stages it soon became apparent that if the Land Bank Commissioners' loans were to be continued, additional funds must be provided. These were made available by the Federal Farm Mortgage Corporation Act, which was approved on 31st January, 1934. This Act authorised the Land Bank Commissioner to make loans on behalf of the Federal Farm Mortgage Corporation to the extent of $600,000,000 to be paid in the bonds of this corporation.

Increase in Loans

From 12th May, 1933, to 30th June 1934, the Land Bank Commissioner made 228,734 loans, aggregating $380,809,901. From nineteen loans amounting to $40,100 in May, 1933, the number of loans rose to 23,709 amounting to $36,665,204 during December, 1933.

Terms of Loans

For the purpose of refinancing farm indebtedness loans can be made for a period not exceeding forty years. Loans for purposes other than such refinancing can be

made for a period not exceeding thirteen years. However, in practice the loans for refinancing purposes are made for a considerably shorter number of years than is authorised by the Act. An analysis of the loans made by the Land Bank Commissioner during the first year of its operation has been made by the Division of Finance and Research of the Farm Credit Administration. This analysis shows that during the first year of operation 86.8 per cent. of the number and 83.6 per cent. of the amount of Commissioner's loans were made for a period of thirteen years.

Purposes of the Commissioner Loans

From 12th May, 1933, to 30th April, 1934, the loans made for various purposes show the following percentages:—

Purpose for which loans were made.	Per cent.
Refinancing mortgages ..	68.2
Refinancing other debts ..	23.2
Providing for working capital ..	6.0
Reedeeming of purchasing farm property ..	1.8
Paying loan fees ..	0.8
	100.0[1]

Interest Rate

The Emergency Farm Mortgage Act has laid down that the interest rate on the Commissioner's loans should not exceed 5 per cent. During the first year of operation of these loans the maximum rate of interest allowed by the Act, *i.e.*, 5 per cent. was charged on all loans.

Benefits Derived from the Emergency Farm Mortgage Act

It cannot be denied that this Act proved a great

(1) The Farm Credit Administration by W. I. Myerc published by the American Bankers' Association, New York.

boon to suffering farmers and provided them with real relief. Whatever may be our criticism on the advisability of spending such huge sums of state money to relieve certain suffering persons at the expense of the general taxpayers, it cannot be denied that the situation was really serious and required generous help from the state and quick action to save them from bankruptcy. One may, however, ask the advisability of setting such a precedent and the dangers if further political pressure is brought by the suffering party. In the United States the interests of the farmers have always been strongly represented in the Legislature and there is a real danger that they may exert their influence to achieve their desires, which may be desirable at the time of emergencies but if exerted for normal purpose may prove a serious difficulty to the state and a great burden to the taxpayer.

The Farm Credit Administration Act

Of all the measures of the New Deal the Farm Credit Administration is the most useful and constructive measure and it provides the American farmer with a co-ordinated system of agricultural credit unparalleled in any other part of the world.

In 1933, before Roosevelt came to power, there were five different federal farm credit agencies which were catering for the credit needs of farmers, without any central co-ordination, and more often than not were competing with each other in providing credit. In 1916 the Federal Land Banks were opened to provide long-term credit. In 1923 the federal intermediate credit banks were organised to provide so-called intermediate credit, and their management was entrusted to the federal farm loan board which was managing the federal land bank. The crop production and seed loan offices, which were really a legacy of the War period and were under the Secretary of Agriculture, remained under him to provide emergency short-term relief credit. In 1929 the federal farm board was created as an independent agency to provide credit to co-operative associations for marketing purposes, and, finally, in 1932, the Reconstruction Finance

Corporation set up Regional Agricultural Credit Corporations to provide production credit.

All these five agencies were drawing funds from the Federal Government in one form or another. The whole capital of the federal intermediate credit banks was subscribed by the Federal Government. The revolving fund of $500 million for the federal farm board, which was set up under the provisions of the Agricultural Marketing Act of 1929, was subscribed by the Treasury on behalf of the Federal Government. The funds used by the Crop Production and Seed Loan offices were provided by special appropriations of Congress, and later from the funds of the Reconstruction Finance Corporation, the entire capital of which was subscribed by the Federal Government. The major portion of the capital of the federal land banks was subscribed in the beginning by the Federal Government, but was eventually transferred to the National Farm Loan Associations until, at the end of 1931, almost all the capital was transferred to these associations, but the Federal Government had to subscribe again in 1932 when the capital of these banks was increased.

In spite of the fact that the Federal Government had invested a big amount of capital in all these lending agencies and they were under its supervision and control, their administration was widely disintegrated. Owing to this disintegration, and the absence of any co-ordinating link to harmonise their lending policies, there was great overlapping in their operations, especially in the field of short-term credit. Not only was there duplication of lending agencies, but there were also variations in the rates of interest charged by different institutions. For example, the Federal Farm Board was providing credit at very low rates of interest (average 2.9 per cent.), while the Regional Agricultural Credit Corporations were charging 6½ per cent.

" The farmers were not only confused as to the proper agency from which to obtain the desired loan, but also

as to its location. For example, farmers in Northern Mississippi were served by the federal land bank and the federal intermediate credit bank in New Orleans, Louisiana; the Regional Agricultural Credit Corporation at Jackson, Mississippi; and Crop Loan offices at Memphis, Tennessee. On the other hand, Eastern Missouri farmers found all the four agencies in St. Louis, but no two of them in the same building."[1]

When President Roosevelt came to the White House early in March, 1933, he realised this chaotic state of affairs. The agricultural horizon of the country was very dark indeed. The banking crisis of March, 1933, further aggravated the situation. "This crisis brought a reduction of nearly 4000, or 20 per cent. in the number of the country's banks.

Aggregate resources decreased by nearly five and a half billion, or 10 per cent. compared with the peak which was $74,000,000,000 in 1930; the resources of the country's banks in June, 1933, decreased to $50,000,000,000, a shrinkage from the peak of $22,700,000,000 or 21 per cent."[2]

Realising the gravity of the situation, and in order to bring about the co-ordination and centralisation of the existing credit agencies, the President issued an Executive Order on 27th March, 1933, which was to be effective two months later. All the existing farm agencies were to be consolidated into one organisation—The Farm Credit Administration. This Executive Order became effective on 27th May, 1933, when the then existing credit agencies were consolidated under one management, and board or committee management was replaced by individual responsibility. The Governor of the Farm Credit Administration is individually responsible to the President of the United States.

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(1) Address by W. I. Myers, Governor, Farm Credit Administration, delivered during Farm and Home Week, Cornell University, on 14th February, 1934.

(2) Report of the Economic Policy Commission of the American Bankers' Association quoted by Ellis Wellard, D., in an address before the Western Farm Economic Association, 21st June, 1934.

The following Chart gives the organisation of the Farm Credit Administration:—

Land Bank Commissioner.	Co-operative Bank Commissioner.	Intermediate Credit Commissioner.	Production Credit Commissioner.
Supervises 12 Federal Land Banks.	Supervises 1 Central Bank for Co-operatives.	Supervises 12 Federal Intermediate Credit Banks.	Supervises 12 Production Credit Corpora tions.
National Farm Loan Associations.	12 Banks for Co-operatives.		
Commissioner Loans	Agricultural Marketing Act Revolving Fund.		Production Credit Associations.
Joint-stock Land Banks.	12 Regional Agricultural Credit Corporations.		Crop Production and Seed Loan offices.

Loans Made by the Farm Credit Administration

These permanent units extended a large volume of credit during 1935. The Federal Land Banks, which make long-term first mortgage loans on farm real estate, closed 58,968 loans totalling nearly $249,000,000. The Federal Intermediate Credit Banks extended $414,000,000 of credit to production credit associations regional agricultural credit corporations, agricultural credit corporations, livestock loan companies, banks, co-operative associations, and banks for co-operatives in the form of loans and discounts. The production credit associations made 214,936 loans amounting to $188,800,000. These associations extend short-term credit to farmers for the production of crops and livestock and rediscount their loans with federal intermediate credit banks. The

banks for co-operatives granted $66,300,000 of both long term and short term credit to 1,141, farmers' co-operative associations during the year.

Critical Estimate for the Farm Credit Administration

It is too early yet to pass any judgment on the valuable work of the Farm Credit Administration. Time is the test, and it alone can tell the real worth of any such institution. As far as the general principles are concerned, the foundations of the present system look sound, and it is justified in view of the circumstances prevailing in the country. The Farm Credit Administration came into being when the country was in greater depths of depression, and the morale of the agricultural industry was being destroyed through the fall of prices and wholesale foreclosures. The outlook for the farmers was very dark indeed.

The Farm Credit Administration has been working since its inauguration through the most difficult times recorded in recent history. Under these circumstances it becomes all the more difficult to judge its value as a permanent farm credit institution. During its first year it has been confronted with the difficult task of providing emergency relief. It has achieved very significant results. In the first year it provided farmers with $1,250,000,000 credit through all the agencies working under it. "The most significant achievement of the year is not that one measured by the dollar sign; rather it is the improvement in the morale of agriculture everywhere—the return of hope and beginnings of renewed confidence on the part of farm workers who saw nothing ahead but ruin fifteen months ago."[1]

Some mistakes have been made by the Farm credit Administration, but they have been errors in execution, not in the fundamental application of the whole system to the problems presented. The Administration was faced with such a tremendous task in so short a time that it

(1) Ellis? Wellard, D. Address delivered before the Western Farm Economic Association.

would have been impossible for even the oldest established institution to deal with it with entire satisfaction.

The increasing participation of the Federal Government in the domain of agriculture credit might be objected to by those who are advocates of private enterprise, and be considered a serious encroachment on private rights. On general grounds there is much to justify this assertion. But, taking into consideration the increasing participation of the state in so many other important fields, there seems little reason for excluding farmers from its ambit. The Farm Credit Administration " is admirable as a recovery measure in both its specific and general results. It benefits the farmers. It helps to thaw the frozen streams of credit and of trade."[1]

An important question arises about the future possibilities of the Farm Credit Administration. The subscription of the capital stock of various agencies working under the Farm Credit Administration, by the government, and, in addition, the guarantee of more than $2500 million bonds by the Federal Government may be justified in view of the crisis, the stringency of the money market, and the lack of investors' confidence in private bonds. Such a step was necessary to save the farmers from ruin in such an extraordinarily difficult period. However, one may ask, will it be possible for the Federal Government to disengage itself in years to come, and will the capital stock of those institutions be gradually subscribed by borrowers, and will eventually the Farm Credit Administration become a private corporation or will it continue, at least for many years to come, as a state institution which will be most sensitive to influence?[2]

It is highly desirable that, with the return of normal conditions, it should revert to the position of a private corporation as originally intended. If the Federal Government should continue to provide funds in one form or another, " what are going to be the demands made by the farmers and voiced by Congress? What opportunities

(1) Steel-Maitland, Sir Arthur, New America, page 115.
(2) Steel-Maitland, op, cit. page 114.

on the other hand are placed in the hands of an adroit and determined administration? Will he have the power to affect the well-being of farmers in a matter in which they will be most sensitive to influence?"[1]

It is only time that can answer these questions. In the meantime it is earnestly hoped that the Farm Credit Administration will become a permanent co-operative institution of farmers, immune from all party or political influence, and will be administered in the interest of the farmers on sound business lines. If any credit institution is to succeed, politics and charity must be divorced from it.

There is one apparent contradiction in the whole agricultural scheme of the New Deal. While on the one hand millions of dollars have been spent in dissuading the farmers from cultivating more land and even abandoning a part of the land that is already under cultivation, on the other hand through the Farm Credit Administration generous help has been given to the farmers (in many cases at the expense of the tax-payer) to continue their cultivation. One would naturally question the advisability of subsidized credit at a time when it was considered desirable to discourage further production. However contradictory these provisions may be this much can be said to the credit of the New Deal, that the Farm Credit Administration is the finest experiment in Agrarian[1] Banks and we can very much profit by it in India.

(1) For detailed information about the Farm Credit Administration, see my book "Agricultural Credit" op. cit.

CHAPTER VI

ECONOMIC PROBLEMS OF INDIA

THE matter contained in the foregoing pages gives enough food for reflection to any serious-minded Indian. The time has come for us to decide definitely as to what policy we should follow in self-governing India. The greatest handicap from which every Indian student or statesman suffers is that there is no adequate data available in the country on which he can base his premises and draw the right conclusions. It is a matter of extreme regret that even Indian students who go to foreign Universities generally confine their researches to Indian problems instead of studying international economic problems. This in itself is a great service to the country, but this sort of work could be easily carried on in the country itself. The time and money which these students waste during their sojourn is a great drain on the country. They go there not with the spirit of investigation and learning but merely to get degrees. The result is that we seldom get any detailed information about the working of economic laws and institutions in foreign countries. In a recent speech His Excellency the Governor-General pointed out the necessity and importance of studying international economic problems and it is with this view that this treatise has been presented. There is a good deal of vague discussion in India about industrialising the country and protecting our industries, and thereby create a millennium for India. Like all other countries here the appeal is seldom to the head and is always to the heart. As a matter of fact, the tyranny has gone so far that if any Indian economist dares to say something against protection he is considered not only unpatriotic

but is sometimes branded with some more unjust and worse titles. This spirit is very much to be deprecated. As students of economics we must be dispassionate and impartial. We should study the facts as they are and should not study them to prove our own pet theories. In this connection, the remarks of Professor Pigou should be carefully read and acted upon by every Indian economist. I think no apology is needed for quoting them at some length.

Discussing the difficulties of the economist's subject he observes: "A sound special characteristic of the economist's subject—one indeed that is in large part responsible for the situation I have been describing—is that the economic argument is coming continually to play a larger and larger part in partisan political debate. Political partisans—I use the term advisedly so that everyone can easily withdraw his personal favourite from the slanders I am about to utter—political partisans, I say, are accustomed to decide what they want to do first and to seek for arguments in favour of it afterwards. Economic reasoning is for them, not a means of arriving at the truth, but a kind of brickbat useful on occasions for inflicting injury on this opponents. There is a tale of a Chancellor of the Exchequer who elected to impose a certain duty in one year and in the year following elected to remove it. He invited his officials to provide him with arguments in favour of that second course of action. They were obliged to inform him that in his speeches of the year before, in favour of the policy he was now reversing, they had already embodied antidotes to all the arguments he now required. This attitude of political partisans towards economic reasoning puts economists in continual danger to which theoretical physicists are correspondingly exposed at the hands of theological partisans—the danger of attempts at exploitation. I myself on one occasion had an amusing experience of this kind. On a piece of proposed legislation that involved a point of economic analysis I had rashly written something in *The Times*. The Prime Minister

of the day, having been informed, I have no doubt by his secretary, that my argument was favourable to his policy, delivered a public speech, in which the pronouncement of "the great Cambridge economist" was held up to all men's admiration. As it happened, the opinion of the Prime Minister's secretary that my argument supported his policy was incorrect, and it became my painful duty to point this out. Thereupon in this eminent man's next public utterance "the great Cambridge economist" disappeared and there emerged in his stead that "mere academic theorist." Of course to students with detached minds this kind of thing is entertaining and quite harmless. But to a young man the ambition to play a part in great affairs is natural: and the temptation to make slight adjustments in his economic view, so that it shall conform to the policy of one political party or another, may be severe. As a conservative economist or a liberal economist he has much more chance of standing near the centre of action than he has as an economist without adjectives. But for the student to yield to that temptation is an intellectual crime. It is to sell his birthright in the household of truth for a mess of political pottage. He should rather write up for himself and bear always in mind Marshall's weighty words: 'Students of social science must fear popular approval; evil is with them when all men speak well of them. If there is any set of opinions by the advocacy of which a newspaper can increase its sales, then the student......is bound to dwell on the limitations and defects and errors, if any, in that set of opinions; and never to advocate them unconditionally even in an **ad hoc** discussion. It is almost impossible for a student to be a true patriot and to have the reputation of being one at the same time.'[1]

A fundamental defect in the Indian system of education is that we are seldom taught to think for ourselves. We cram without understanding and consider the printed word as something sacred. When I was appearing for one of my examinations in India, in answer to one ques-

(1) Pigou, A. C., Economics in Practice, pp. 8-11. Six Lectures on Current Issues.

tion I pointed out the great defects in the protective system. Even in my earlier days I had a great hunger for knowledge and I used to read books dealing with various countries and what I wrote in this paper was mainly based on my readings dealing with the effects of protection in Australia and America. When we came out of the Examination Hall and we compared our answers I was ridiculed by my fellow students for writing against protection and they told me that I was bound to fail because my answer was incorrect. This is the spirit in which an ordinary Indian student is brought up. He writes what he is told by his professors. Unfortunately, independent thinking is highly discouraged. This is the greatest defect in our educational system. It may sound irrelevant to discuss our educational system in discussing the economic problems of India but it has a great bearing on these problems. These students become the future statesmen and politicians of the country and are responsible for moulding the destiny of the country. If they are not trained properly and their intellectual faculty is not developed for independent thinking the nation cannot achieve greatness. We must learn the fundamental principle of democracy, that is to tolerate and to appreciate differences of views. We must examine the arguments advanced by any other person not in the spirit that what he is saying is wrong, but in the spirit that there may be something in it. Due to propaganda and defective thinking in India notions about certain economic problems have become so rigid that a man who dares to say something against those notions is always liable to incur unpopularity. But the path of a reformer is never smooth. It is the duty of the younger generation and younger economists in India to study these notions dispassionately. The world is moving so fast and things are changing so rapidly that unless we keep pace with the events that are happening in other parts of the world we cannot do any great service to our own country. Now our Indian students have a very limited knowledge of

what is happening in other fields. In the present essay my whole aim is to present some facts relating to leading countries of the world and to leave the readers to draw their own conclusions.

The Future Economic Policy of India

What should be the future economic policy of India? This is a question which I shall try to answer briefly, as to deal fully with a question like this would in itself require a separate volume.[1]

The first and foremost question is the Indian Tariff Policy. The Fiscal Convention of 1921 granted full powers to the Indian Government to adopt its own fiscal policy. We have seen that this has not been a mere concession on paper but actually India during the last fifteen years has been pursuing a policy in many cases opposed by Lancashire and other British interests. Now that this Convention has been established and more and more powers will come into the hands of the Federal Parliament where the officially nominated element will disappear with the advent of the new constitution, and increasing powers will come to the Indian Cabinet, this power will become very formidable. In the interest of the country it is highly desirable that we should study the achievements of this policy during the last twelve or thirteen years and in the light on this experience we should formulate a definite policy for the future. Great hope has been pinned on protection for solving the economic problems of this country. In certain quarters it is considered that if we adopt a whole-hearted policy of protection to develop our industries, we shall be able to remove the poverty of the Indian masses. Shall we? The working of the past sixteen years does not give us much encouragement in this direction. The results of protection have not been as satisfactory as was originally contemplated. In reply to this it is answered that this is due to the half-hearted policy of protection adopted by the government. If the policy had been followed vigorously

(1) At present I am engaged in studying at some length the Economic Problems of Indian Agriculture where all relevant matters will be discussed more fully.

our achievements would have been greater. But I have my doubts. Anyway, the data available does not give us any hope or encouragement to think that if the policy had been followed more vigorously the results would have been more encouraging. The immediate effect of a higher tariff is generally an increase in price. In a country like India where the poverty of the masses is proverbial there is a limit to which prices can be raised. The burden already imposed on the consumers has been rather too heavy for them to bear. Various Tariff Boards have taken increasing pains to show that the effect of individual protection has not been heavy on the consumers, but we must not forget that although the effect of protecting individual industries may not be heavy, the cumulative effect of all those protective tariffs is very considerable. Not only the interest of consumers should be taken into consideration in this connection but the interest of Indian producers should not be neglected. In India we depend a good deal on our favourable balance of export trade. We export more than we import. Our export industries have to bear the brunt. If our cost of production is higher we shall be in a weaker position for competing with other countries of the world. It is interesting to note that while the entire Indian Press is full of propaganda and complaints against the present ratio of exchange, and it has been said that the Indian rupee is overvalued and places an Indian producer in a rather awkward position competing with other countries, it has never been suggested that these higher tariff duties equally impose a heavier burden on the Indian producer and lessen his ability to compete in the foreign market. This is not the experience of India alone but this is also the experience of many other countries too. The Committee of Economists appointed by the Prime Minister of Australia in 1929, reported that as a result of protection, export industries have been hard hit and 10 per cent. burden was imposed on them.[1] It is alseo interesting

(1) "Our surplus resources available to subsidize industry are limited and will not stand any greater strain than that imposed by the present tariff." The Australian Tariff. An Economic Enquiry.

to note that since the depression, Australia has realised its mistake and there has been a trend towards lowering its barriers. The same thing happened in the U. S. A. The present Democratic Administration has pledged itself not to raise further tariff barriers. American exports, especially the exports of agricultural products have suffered very heavily owing to the higher tariff walls that exist in the U. S. A. As a matter of fact one of the main causes of the present economic depression and the worse lot of the American farmers has been caused by the American tariff policy. It has prevented foreign goods from entering the American markets and thereby has compelled foreign countries to develop their own resources. Thus the American farmer has lost more than the American manufacturer has gained. It is a general belief in India and also abroad that in America there has been no protest against these high tariffs, or rather academic opinion is favouring this. Nothing is further from the truth. When the Hawley-Smooth Tariff Bill was pending in 1929, over 100 Economists representing 46 States and 79 Universities of the U. S. A. presented a petition to Congress in which they protested against these high tariffs.

Tariffs and the Political Conflict

When we advocate the use of tariffs and protection in India we must not forget the effects of such a policy on the various Provinces. If tariffs develop industries we may find that industrial provinces may be of one accord and favour tariffs. But what about the predominantly agricultural provinces like the Punjab and the U.P. The Provincial conflict is bound to arise. However we may condemn provincialism, dissatisfied provinces will be a serious threat to a "United India"—a threat which no serious minded person can take lightly. The immediate question would arise as to why the Punjab should suffer for the benefit of Bombay industries. We can hardly achieve both industrial development and satisfaction of the country as a whole. There is every likelihood that if our protectionist policy is pushed too

far, the other countries to whom we export will retaliate. The Punjab products will suffer from retaliation in foreign countries. This has already happened. Take the case of cotton. The Cotton industry needed protection and once it was given protection it was not satisfied with half-hearted measures. It was advocated on behalf of the cotton industry that competition from other countries was becoming so severe that it needed higher and higher protection. As a result the burden of protection became so heavy that it became almost impossible for Japan to send her goods to India. When the India Government imposed certain restrictions on the import of Japanese cotton cloth, Indians were happy that now they would be able to develop their own cotton industry. But higher tariff meant that the Punjab peasant had to pay a higher price for his cloth. So he was hit. If it had been left at that, the matter would not have been so serious. But Japan threatened to boycott Indian cotton, and to his great dismay the Punjab peasant found that there was little demand for his cotton. He was getting less and less for his cotton and was paying more and more for his cloth. Finally the situation became so serious that the Government of India had to negotiate with Japan. similar situations are bound to arise if this policy of high tariffs is pushed too far. What will be the reaction of this situation on various political parties? If we find that due to our heavy tariffs, our goods are threatened in foreign countries our position will become far from comfortable. In this connection I would like to disillusion most Indians. We in this country are prone to think that raw materials are indispensable to foreign countries and India is in a very favourable position as its exports consist mainly of raw materials. As a matter of fact there is a popular belief in the country that our export products are an essential requisite for foreign nations, and they cannot dispense with them. Not only this, but the man in the street thinks that if we stop our export of wheat to England, English people will starve and if we stop the export of our cotton, Lancashire industries will close

down. The truth is far from this. As a matter of fact during recent years India has been a net importer of wheat. Indian export of wheat does not play any important part in the export trade. We produce hardly enough for our own consumption. Similarly in cotton we have serious rivals and the truth is that Indian cotton is not appreciated in foreign countries owing to its low quality and the very primitive way in which it is marketed. No doubt we have a monopoly of jute, but there is a wide movement towards bulk handling of wheat and other products, which must curtail the demand for jute. Even in tea we find that various other colonial countries are becoming more and more formidable rivals and similarly in other products we are facing increasing competition. The position of the Indian exporter is not as strong as it was, say twenty years ago, when there was no serious competition. We must bear in mind these important facts and the necessary repercussions which are bound to follow if we push our policy of protection too far. It is bound to react on our export trade. We cannot both have our cake and eat it. If we are buying less we shall be selling less. In this connection the observations of Professor Taussig are interesting. He says, "If there are less imports, there will be less exports, and labour, if employed more in the new way is employed less in the old."[1] There are very few countries in this nationally conscious world which will be prepared to buy from us irrespective of the fact whether we buy from them or not. "The probable effect of selective protection is to divert, not to add to, the country's economic activities. The expansion of the protected industries is balanced by the contraction in the predominantly export countries."[2]

It will pay those of us who always maintain that we have the interests of the Indian farmer at heart, to study this matter dispassionately and I am sure the only conclusion that we shall be able to draw is that if we start developing our industries and curtailing our imports, our

(1) Taussig. Principles of Economics, Volume I. pp. 510-11.
(2) Professor Henry Clay. The Post War Unemployment Problem. page. 115.

exports are bound to suffer and with it the interests of the farming classes. Taking the case of sugar, we find that as a result of our very much reduced imports from Java, Java takes much less from us than it used to.

	Imports from Java	Exports to Java
	(in thousands of Rupees)	
1930-31	10,34,17	2,58,69
1931-32	4,84,72	1,70,90
1932-33	3,73,50	70,70
1933-34	2,38,90	44,88
1934-35	1,90,68	48,54

Exports to India from the Dutch East Indies

	Value in 000,000 Gulden	Percentage of Total Exports.
1930	133	11.5
1931	58.1	7.8
1932	38.3	7.1
1933	24.2	5.2
1934	19.5	5.0

Imports from India into the Dutch East Indies

	Value in 000,000 Gulden	Percentage of Total Imports.
1930	61	7.3
1931	29.8	5.5
1932	17.4	4.7
1933	11.2	3.5
1934	7.9	2.7

The experience of the U. S. A. in this connection should afford a great lesson to us. Owing to the policy of high tariffs which was vigorously followed after the War, American agriculture has suffered tremendously. The results of these barriers are admirably summed up in a report to the Senate which deals with international trade barriers in regard to American agriculture.[1]

The plea which is very often put forward that protection will lead to more and more employment in the country and will solve the problem of unemployment

(1) op. cit.

does not bear closer scrutiny. As a matter of fact an immense amount of literature is available to show that in the long run protection does not encourage employment.

If India were to produce all the manufactured goods which she requires, she would still have to export some produce in order to meet her foreign obligations and huge amount of home charges, etc., and also, owing to our love of white and yellow metals, we shall have to export our products in order to get these metals. In view of the restrictionistic policy adopted by various governments it will be increasingly difficult for India to find outlets for her goods if she herself start a restrictionistic policy by shutting the door on the produce of foreign countries. But even if it is admitted for the sake of an argument that this course is possible, still there will be a serious problem for us to tackle, that is, what will be the fate of those who depend on the export trade? If some increase of employment does occur in the manufacturing industries the unemployment created in the export industries will outstrip the employment in the manufacturing industries. In his speech to the Legislative Assembly in March, 1936, Sir James Grigg the Finance Member remarked. " If all India's needs of manufactured goods were supplied from her own factories the additional number of people industrially employed would be negligible, while the number thrown out of employment and the losses to producers owing to our inability to export which our refusal to import would cause would be disastrous." In this connection Mr. Keynes remarks " Contemporary experience of trade restrictions in the post-war Europe offers manifold examples of ill-conceived impediments on freedom which, designed to improve the favourable balance, had in fact a contrary tendency." " And finally, a policy of trade restrictions is a treacherous instrument even for the attainment of its ostensible object, since private interest, administrative incompetence and the intrinsic difficulty of the task may divert it into producing results directly opposite to those intended."[1]

(1) Keynes J. M. General Theory of Employment pp. 338-39. Interest and Money.

If we adopt a whole-hearted policy of protection and an increasing number of industries are brought under the shelter of tariff barriers, we shall be faced with two most serious and difficult problems. (1) The effect on the consumers. (2) The effect on the budget. The poverty of an Indian ryot is proverbial. With the exception of China our national income is perhaps the lowest in the world. Although owing to the warm climate and the extreme fatalism of our people our wants are strictly limited even then we find that millions of people, if not actually starving, are really underfed and underclothed. I am not talking about the illiterate people and other workers, but even if we take the educated classes, the salary which is given to the clerical staff is barely enough for these people to make both ends meet. Now we shall have to see what effect protection will have on these classes of society. It is a recognised principle of taxation that it should be progressive in its character, i.e. the richer people should contribute more and the poor people should contribute less. The taxation system of a country, it is generally recognised, should be devised in such a way that its impact on the richer classes should be heavy and on the poorer classes it should be as little as possible. But does that apply to India? Unfortunately it does not. In India a large part of our revenue is raised by means of indirect taxation which is contrary to all the sound canons of taxation. The effect of our protectionist regime on the Indian consumers has been pretty severe. The trend of our tariff policy has been upward. Until 1915 the general rate of tariff was only 5%. Due to exigencies of the War it was raised to 7½% in 1916. But the aftermath of the War necessitated a rise to 11½% and the further depression of the twenties compelled us to increase it to 15% in 1922. Since 1922 the Fiscal Convention has given a right to the Indian Government to impose protective duties and the general rate of duty today is more than twice as much what it was in 1922. Almost all conceivable necessaries of life are taxed, with the result that the

consumer has to bear a much heavier burden now than he bore in 1916. There must be a limit to this burden and I think all the available signs point to the fact that it has reached the saturation point. This increased burden of indirect taxation is not only imposing a heavy burden on consumers but is also handicapping our exporters, as I have already pointed out. It might have increased employment all round the industrial areas but it has certainly reacted and has created unemployment in the rural areas. Class warfare is bound to arise if no immediate action is taken. In this connection it will be instructive to look around and see what is happening in other countries of the world.

Recently we read in the papers that there was a tendency in some Australian states to split up the commonwealth. The agricultural states seriously protested against the policy of high taxation through tariffs which was handicapping Australia's export industries. The matter went so far that Western Australia which is primarily an agricultural state, sent an ultimatum to the Commonwealth and presented a petition to the Parliament in Great Britain requesting that Western Australia should be allowed to secede from the Commonwealth as she was being exploited in the interests of Eastern manufacturs. The repercussions of such a split are very serious and afford a great lesson to us in India who are going to embark on such a programme. We who are just in the midst of forming a nation must safeguard the Indian Commonwealth from disintegration, a split, and unpleasant consequences of the rivalry between the various provinces. Taking the case of Canada, we find that the Western Provinces have launched a campaign against the Eastern Provinces and are threatening the solidarity of the Canadian Federation. If we continue our policy of high tariffs the situation is bound to arise when we shall see severe bickering between industrial and agricultural provinces. The signs of discontent are already apparent. It is time for us to learn from the lessons

of Australia and Canada. All over the British Empire there is a tendency on the part of the agricultural interests to threaten the manufacturing interests. In 1933, Sir William Hunt, Representative of the Meat Control Board, giving his evidence before the Royal Commission on Tariff in New Zealand went so far as to suggest that New Zealand for customs purposes should be made a county of England and advocated a free trade between England and New Zealand. This sort of situation as I have already said is bound to arise in India sooner or later.

The second important point which we have to consider is that of the effect of protection on the budget of the Government of India. The major part of Government's revenue is derived from custom duties, but if the custom duties are appreciably increased there is bound to be a decline in the custom revenue. Here we shall take the case of the sugar protection and show the decline in the custom revenues from sugar due to heavy protection.

	Customs Revenue from Sugar[1] (in '000 of Rs.)
1930-31	10,78,97
1931-32	8,10,07
1932-33	6,84,79
1933-34	4,72,04
1934-35	3,81,34
1935-36	3,24,15
Excise Revenue from Sugar	
1934-35	97.22
1935-36	1,58,82

This table requires no comments. The custom receipts from sugar fell down from over 10¾ crores of Rupees in 1930-31 to about 3¼ crores in 1935. If we face a similar fall all round how are we to provide revenue to meet the expenditure? The general answer to this question is that the Indian

(1) The Indian Tariff Policy—by Bhaskar N. Adarkar, page 74.

Administration is top-heavy and the country cannot afford such an expensive administration. No doubt our superior services are rather top-heavy but at the same time we must also admit that our inferior services are scandalously low paid. If we are going drastically to reduce the number of superior services and the emoluments of those services there is bound to be a demand for higher payment and an appreciable increase in the emoluments of the inferior services. If India is said to be the highest paid country for higher services it is one of the lowest paid country for the lower classes.

Changing Arguments of Protectionistic School

It is interesting to see how the arguments of the Protectionist School change from time to time. Alexander Hamilton, who is frequently cited as the father of the Amercican tariff system, is said to have admitted frankly that the tariff is a bounty to special interests. He believed and frankly said that the way for a government to succeed was to align itself with the "moneyed interests" of the country. But those were the days when the common men did not have the vote, and it was feasible under such circumstances for a statesman openly to advocate such a system of democratic government. Early in the nineteenth century suffage was extended to include the common propertyless man, and with it came a change in the type of arguments which were used in favour of the tariff system. It suddenly came to be solely for the benefit of the common man.

"It is like a manna in the wilderness of the tariff controversy to see how the protectionists convert old arguments to new uses. We used to need tariffs to protect our "infant" industries. But lately, the protectionists argue that our full-grown, strong industries need protection from foreign infant industries. In the course of the debates on the Hawley-Smoot Tariff Bill, Senator Walsh, Massachsetts, after pointing out how the shoe industry developed in this country without the aid of a tariff, argued that as countries with lower standards of living learned our technique and began to establish shoe

manufacturing industries it was our duty to protect our organised shoe manufacturing industry from these foreign infant industries."[1]

Scores of other such examples could be easily quoted from the experience of other countries. We have just begun this game and it is well for us not to play it so seriously as to form a regular habit of it. Vested interests if once created are very difficult to abolish. A reference has already been made to that effect about the sugar beet subsidy in England. The English Government has so far spent over 40 million pounds in subsiding beet sugar. The Royal Commission which was recently appointed to investigate into the matter definitely recommended the abolition of this subsidy but the government was faced with such opposition from vested interests that it could not do so. This is the time for us in India to learn from the experience of others.

The belief that protection can solve all the economic problems of India and help the country towards industrialisatioin, would have been true perhaps twenty years ago. But the present system of Government Economics which has already been discussed has introduced so many novel and rigid measures that in contrast to them protection looks quite an innocent measure. Supposing we embark on a whole-sale programme of bold protection, we shall soon find to our dismay that it will not suit us. Protection cannot be any remedy against the import from countries where the currency is depreciated. So in order to safeguard our interest we shall have to depreciate our own currency. But even depreciating currency is no remedy against subsidised exports. In order to check subsidised exports, we shall have to enter into other restrictive measures and the consequences of all these will be that we shall find ourselves in a muddle, the effects of which have already been discussed in the previous chapters.

Protection and Industrialisation

The preponderate majority of the Indian population

(1) Quoted by Smith—Planning & The Tariff. op. cit.

depends for its livelihood on the tilling of the soil. In a vast country like India where nature is not so bountiful and the major industry of the country is exposed to various risks, it has been alleged that we should develop our industries in order to create a balance and to diversify our resources of production. Industralisation of a country both from economic and other considerations is highly desirable. No one will dispute the dangers to which our major industry is exposed and the desirability of utilising the resources of the country in such a way as to increase the national income and to create more social welfare and happiness. A country like India, which has a very enormous market within its own doors and is a supplier of various raw materials is particularly suited for industrial purposes. The only difference of opinion that can possibly exist is not whether the country should be industrialised or not, because on this point the nation is unanimous that it should be industrialised,—but as to how this should be done is a matter on which genuine difference of views exists. The sooner we form some definite policy in this regard the better for the country. The popular belief is that the easiest and quickest way to industrialise the country is by protecting Indian industries and by embarking on a wholesale programme of protection. The present policy of discriminating protection is considered inadequate for developing the resources of the country. This argument cannot be lightly ignored in India as it has been advocated by eminent Indian economists. Professor Vakil says "That we should have a policy of protection unhampered by any conditions, comprehensive in its application, designed to develop industries large and small, existing and potential, both for the home and the foreign markets, with a procedure which shall aim at a rapid industrialisation of the country; accompanied by suitable and effective arrangements to see that the gains of such development are mainly enjoyed by the nationals of the country." He further remarks "In order to have maximum protection, the policy should be comprehensive and embrace all possible industries, large and

small, existing and potential, for which a reasonable field is available. This means that it should not be restricted by any kind of limitations now in vogue such as the condition that the industry should be such that it would eventually face world competition wtihout protection."[1]

We should not have disputed with Professor Vakil if he had advocated such sweeping and thorough protection for the country in order to make India a self-sufficing unit without any trade relations with other countries of the world. Neither would this view have been a novel one because such a policy is being practised by many leading European countries like Germany and Italy. But we certainly find this argument rather inconsistent and meaningless when we find that Professor Vakil also has in mind that we should develop industries not only for supplying goods to our own country but also for the foreign markets. One wonders how a country is to export its products to foreign countries if the cost of production in the home country is much higher than in other countries and we are protecting industries because we in our own market cannot compete with foreigners. Even those industries in India which have been given protection after due consideration of the three principal factors which were recommended by the Fiscal Commission, *viz.* (1) Industry should possess natural advantages such as abundant supply of raw materials, cheap power, a sufficient supply of labour and a large home market, (2) without the help of protection, either the industry is not likely to develop at all or it is not likely to develop so rapidly as is desirable in the interests of the country; (3) shall eventually be able to face competition without protection; are not able to supply us with their products at a price which is substantially higher than the world price. Taking the case of sugar, we find the cost of production of sugar in India is much heavier than in many other countries. The followng table shows the cost of production in the different countries.

(1) Industrial Policy of India. pp. 63-66 and pp. 48-49. Professor C. N. Vakil, and M. C. Munshi.

Cost of production:—

	Rs. per maund.
Java	3.92
Cuba	4.05
Fiji	5.92
British West Indies	5.96
Hawaii	6.53
India	7.56
South Africa	7.58
Germany	7.65
Formosa	8.46
U. S. Beet	9.00
Australia	11.09
Argentina	11.70

The price for first grade sugar manufactured[1] in Cawnpore factories is Rs. 8-6-0 per maund, *i.e,* Rs. 11-6-0 per cwt. while the price of Java sugar at the same time was Rs. 4-6-0 per cwt. This means that the Indian consumer is to pay Rs. 7 more for every cwt. of sugar made and sold by Indian factories than he would if protection was withdrawn.[2]

If like sugar we produce various other innumerable commodities in India under the shelter of heavy tariff walls, what will be the effect on consumers? The natural result will be that demand for such commodities will have to be curtailed as there does not seem any possibility of increasing the purchasing power of the consumer as rapidly as the cost of production would rise in the thorough protective system. The result would be that India would be a loser rather than a gainer by following this policy.

If we are to develop our industries, and it is highly desirable that we should, we ought to study the matter more dispassionately and more thoroughly. It is highly desirable that we should first set our own house in order. The present state of affairs is far from satisfactory. Indian industries are not so much in need of

(1) The Indian Tariff Policy. Bhaskar N. Adarkar. p. 78.
(2) For details see Indian Tariff Policy. B. N. Adarkar. chap. II.

protection as they are in need of proper organisation and scientific management. It is very deplorable that the management of the Indian industry as a whole is far from satisfactory, and the system of marketing is nothing more than primitive. There is no co-ordination and no proper control. In the previous pages more than once we have definitely pointed out the dangers of State Control but it should not create an impression on readers that we are entirely against any interference by the state. There are certain functions for which the state is very much suited and the results achieved would be very desirable. For instance, the state can do a lot by co-ordinating the industrial policy by way of creating facilities for better marketing and by providing commercial bureaux and better statistics. A good deal of beneficial work has been done by amending the antiquated Indian Companies' laws but still something more can be done in that connection. I very well realise that by the mere passing of the laws nothing could be achieved, and if results are to be lasting the initiative must come from within. It is all the more desirable that the state should follow a persuasive policy and should create facilities for industrial education, and create some Advisory Boards for advising Indian Industries. I am sure if proper attention is devoted in this direction we can dispense with high tariffs to quite a considerable extent and achieve the desired end. If certain industries are in need of help, especially the key-industries, it is more preferable that they should be directly subsidised by the state. The policy of subsidising is certainly preferable to a policy of protection. In the case of subsidising better control can be exercised and the accounts can be watched more carefully than in the case of protection. Unlike protective duties it is not regressive in its incidents and its burden is not unequitable. The public is more likely to take a keen and intelligent interest in industrial matters when it knows the definite amount of subsidies given than under the system of protective tariffs.

To my mind even more important than bounties is the rationalising of Indian industry and managing it on scientific bases. The internal economies in the case of Indian industries are much more important than the external economies. The present policy of Indian industries to pay high dividends to the investors without accumulating adequate reserves should be definitely discouraged. We find that during the Great War the Indian Cotton Industry was booming. It is said that certain concerns declared dividends to the extent of 500 per cent. If those dividends had been properly utilised the condition of the cotton industry would not have been as bad as it is now. Even taking the recent case of sugar, we find that some sugar companies have declared a dividend as high as 65 per cent. —a thing generally unheard of during the depression period in other countries. The natural result of such a policy has been that a hot house growth of companies has come into existence with the consequence that the cost of production of sugar is very high in India.

Marketing

The marketing of Indian products is far from perfect. We find that they have no specific grades or any marks by which they are sold. Fraudulent practices are fairly common and the consumer has no criterion by which to judge the value of most of our products. Even in the export markets the general complaint is that Indian products are marketed in a very primitive way and this naturally discourages the demand for Indian products abroad. Even in the country we find that there is no standardised system of marketing. A lot could be done in this connection. Also in popularising Indian exports abroad we should embark on extensive publicity and propaganda. This is an age of propaganda and we should make the very best use of it. We find that most colonial and dominion countries are spending huge sums of money in order to popularise their products in the British markets. It is very desirable that we should follow this useful example. In the country itself if we can have some

sort of standardised products it will facilitate consumers in making their choice and will make shopping a far less hazardous and risky job.

Developing Small Scale Industries

In my opinion the future policy of India should be directed toward developing medium size and small scale industries rather than large scale industries. There are various industries that are connected with agriculture which could be easily developed. This will not only rapidly industrialise the country, but will also provide a subsidiary occupation to our farmers who find that they cannot fully employ their time in agriculture. There is no reason why we should not develop a dairy industry, a fruit preserving and fruit-canning industry. Jam-making and various other allied industries might be started. I think if proper steps are taken we can easily export these products to various other countries. The future solution of India lies not in developing a few large scale industries in one or two provinces but by encouraging small industries all over the country. In this connection the experiences of Japan should be of special benefit to us. Japan even to-day is a home of small and medium sized industries. But the Japanese system of marketing is so perfect that they have been able to achieve all the advantages of large scale production. I will take the case of the hosiery industry to explain my point. In 1931-32 I was conducting a survey into the hosiery industry in the Punjab. Wherever I went I heard general complaints that the hosiery industry was experiencing severe competition from Japan and Indian manufacturers were not able to compete with the Japanese hosiery products. The main reason which was advanced was that wages in Japan were lower than in India. I think this is rather misleading because the general level of wages in Japan is certainly much higher than the general level of wages in India. It led me to enquire into the condition of the hosiery industry in Japan and I found out that the Japanese hosiery industry was being run on a small scale, but their system of marketing was far more effective

than the system of marketing of hosiery products in the Punjab.

The Japanese Hosiery Industry

A big association in Tokyo owns a large number of small hosiery machines. Electric power is very cheap in Japan and these machines work with electricity. This association lends its machines to Japanese farmers and other workers who live in the villages, and are prepared to work according to the instructions received from this association. Through this centralised organisation all small scattered farmers are working on a definite plan and according to certain standardised patterns. These workers can afford to charge lower wages because they use it as a subsidiary occupation. Women and children are also employed in this work during their leisure hours. The products of these scattered workers are collected and graded and standardised by experts in Toyko and instead of this stock being sent ungraded it is branded with certain specific trade marks and carries the guarantee of this association as to the genuineness of the product. Thereby Japan is able to supply the hosiery needs of the world at much cheaper rates and more effectively. While in the Punjab, especially in Ludhiana which is the home of the hosiery industry in India, I found that all sorts of workers were working on their own, without co-ordination. There were no standardised products and there was no definite plan on which they worked. The result was that they were producing different sorts of products and the purchaser was bewildered as to what to choose. This was in my opinion the main cause why the Punjab hosiery manufacturers were not able to compete with Japanese hosiery. If as in Japan, for instance, there had been a Central Hosiery Board in Ludhiana, it could have standardised the Ludhiana hosiery and could have achieved various economies by large scale buying and co-operative marketing. It could have distributed small hand-machines to people outside Ludhiana, to weavers and farmers who could employ themselves in their leisure hours, and

thereby the wages that they would have to pay to these workers would have been much less than would otherwise have been the case. At the same time it would have benefited the farmers because they could have usefully employed their leisure hours and thus the purchasing power of India would have been raised, thereby enabling the country to consume more. The Central Association could easily standardise and grade the hosiery products, which could be easily sold with the name of that association which would carry more conviction with the consumer, as they would have purchased certain brands with which they would have been familiar. I have made personal enquiries about various other small industries and I have found out that it is not the manufacturing difficulties which the people face but the marketing difficulties. The small producer has hardly any capital to carry on his production and he is unable to bear the risks that are involved in stocking and selling. If we could develop our marketing system, the country could be industrialised far more quickly and at much less cost than by following a system of heavy protection.

The Trade Policy of India

Now that we have considered some aspects of the Tariff Policy of India, we shall naturally ask ourselves what trade policy should we adopt? Indian opinion as expressed through the Legislative Assembly seems to be influenced by events in European and other foreign countries and favours the idea that we should discard our traditional policy of most favoured nation class treaties and should arrange to enter into bi-lateral pacts with other countries in order to increase our international trade. The theoretical aspects of bi-lateral trade agreements and clearing agreements have been already briefly discussed in the third chapter and now before discussing the technique of bi-lateral pacts and the possibilities of using them for India's advantage, we shall first acquaint ourselves with the trade position of India as compared with the various countries of the world, and see what we can gain by entering into bi-lateral trade agreements.

India's Foreign Trade

The declining balance of India's trade during recent years has aroused a good deal of interest in the country and a desire to examine the situation, find out its causes and remedy them. Without going into any detailed data and examining the particular causes, it can be said without any fear of contradiction that a good deal of the decline was due to causes which were affecting international trade owing to world wide depression, to remedy which was beyond our individual control. Whatever may have been the disadvantages of this great slump it has served one useful purpose, that is, it has aroused us from our slumber, and has created an interest in the country in studying the international situation. Until lately a favourable balance of trade for India was always taken for granted and with the innocence and obstinacy of a school-child it was believed in this country that in the markets of the world there is always a demand for raw materials, and India being a raw material producing country was considered to be in a better position with regard to the export of its products to the markets abroad, as it was presumed that there would always be a demand for them. But is there? Post-war experience is telling us a different story. The remaking of the map of Europe after the War, which splintered Europe and created many new states, added new custom unions and created new currencies, and acted as a great barrier to international trade. These difficulties would not have been insurmountable and the world would have become accustomed to these new obstacles provided the economic forces had been left to themselves to work out the solution. But this did not happen. Instead, the barriers increased and the rapid growth of economic nationalism, which in itself owes its existence and expansion to the rise and development of the nationalistic spirit all over the world, further accentuated the difficulties. And it is in the light of these circumstances that we have to determine our trade policy.

The Direction of Indian Trade

The Review of the Trade of India in 1935-36, published (December 1936) by the Department of Commercial Intelligence and Statistics in India provides a vast amount of very useful data in showing the direction of India's overseas trade. The one inevitable trend that is visible through all available figures is that inter-Empire trade is growing while trade with Europe is gradually declining.

The following table shows our import and export trade with various countries of the world during recent years. In order to show the phase and course of our trade pre-War figures have also been included:—

	1913-14			1932-33		
	Exports	Imports	Net Imports (—) or Exports (+)			Net Imports (—) or Exports (+)
	Rs. (Crores)	Rs. (Crores)	Rs. (Crores)	Rs (Crores)	Rs. (Crores)	Rs. (Crores)
United Kingdom	58	117	—59	38	49	—11
Other British Possessions ...	36	11	+25	24	10	+14
Total British Empire	94	128	—34	62	59	+3
Europe ...	85	30	+55	32	29	+3
United States of America ...	22	5	+17	10	11	—1
Japan ...	23	5	+18	14	20	—6
Other foreign countries ...	25	15	+10	18	13	+5
Total foreign countries ...	155	55	+100	74	73	+1
GRAND TOTAL ...	249	183	+66	136	132	+4

	1933-34			1934-35			1935-36		
	Exports	Imports	Net Imports (—) or Exports (+)						Net Imports (—) or Exports (+)
United Kingdom ...	48	48	...	49	54	—5	52	52	...
Other British Possessions	22	9	+13	22	11	+11	24	13	+11
Total British Empire ...	70	57	+13	71	65	+6	76	65	+11
Europe ...	35	25	+10	30	25	+5	35	27	+8
United States of America	14	7	+7	13	8	+5	17	9	+8
Japan ...	14	16	—2	25	21	+4	22	22	...
Other foreign countries	17	10	+7	16	13	+3	14	11	+3
Total foreign countries	80	58	+22	84	67	+17	88	69	+19
GRAND TOTAL ...	150	115	+35	155	132	+23	164	134	+30

These statistics are not only interesting but instructive. We find there is a decline in our imports

from the United Kingdom. The causes are not far to seek. Since the War we have been trying to develop our own industries and are now manufacturing those articles which we previously used to import. Cotton goods and iron are conspicuous examples. As a result of our steady decrease of imports from the United Kingdom the balance of trade which used to be highly against India is now correcting itself and in 1935-36 we imported just as much as we exported, *viz.,* Rs. 52 crores. Another interesting fact in this connection is that our exports to the British Empire have been gradually increasing. Before the War our net imports from the Empire were Rs. 34 crores. The situation has been changing since then. In 1935-36 instead of any net imports our net exports to the Empire were worth Rs. 11 crores. It is disappointing to note that our exports to Europe, which was our principal customer before the War, have been declining. Before the War our net exports to Europe were Rs. 55 crores, which by 1935-36 dwindled down to a mean figure of Rs. 8 crores. It will be of interest to study the percentage share of each country in our trade and in the following table we show the percentage of our import and export trade with the leading countries of the world:—

IMPORTS.

	1913-14 per cent	1932-33 per cent	1933-34 per cent	1934-35 per cent	1935-36 per cent
United Kingdom ...	64.1	36.8	41.7	40.6	38.8
Germany ...	6.9	7.8	7.7	7.6	9.2
Java ...	5.8	2.8	2.1	1.4	1.3
Japan ...	2.6	15.4	14.2	15.7	16.3
United States of America ...	2.6	8.5	6.2	6.4	6.7
Belgium ...	2.3	2.6	2.3	1.6	1.8
Austria and Hungary ...	2.3	0.5	0.5	0.5	0.5
Straits Settlements ...	1.8	2.1	2.6	2.3	2.7
Iran, Arabia, Iraq, Asiatic Turkey, and Sumatra ...	1.5	2.0	1.9	2.5	2.5
France ...	1.5	1.5	1.3	1.2	1.0
Mauritius ...	1.3	...	...	...	...
Italy ...	1.2	3.0	2.5	2.3	1.5
China ...	0.9	2.2	1.9	1.6	1.4
Netherlands ...	0.8	1.3	1.6	1.0	1.0
Australia ...	0.5	0.8	0.9	0.7	0.9
Hongkong ...	0.5	0.4	0.4	0.3	0.3
Dutch Borneo ...	0.4	0.3	0.3	0.2	0.2
Ceylon ...	0.4	1.3	1.1	1.0	1.1
Switzerland ...	0.3	1.0	0.8	1.0	1.1
Kenya and Zanzibar ...	0.3	1.7	2.1	2.4	2.6

EXPORTS.

	1913-14 Per cent	1932-33 Per cent	1933-34 Per cent	1934-35 Per cent	1935-36 Per cent
United Kingdom ...	23.4	28.0	32.2	31.6	31.5
Germany ...	10.6	6.5	6.5	4.5	5.9
Japan ...	9.1	10.3	8.5	16.1	13.4
United States of America ...	8.7	7.4	9.6	8.3	10.1
France ...	7.1	6.0	4.9	3.2	4.4
Belgium ...	4.8	3.0	3.0	2.6	3.4
Austria and Hungary ...	4.0	...	...	...	...
Ceylon ...	3.6	5.0	4.2	4.5	4.5
Iran, Arabia, Iraq, Asiatic Turkey and Sumatra ...	3.2	2.2	1.8	1.9	1.7
Italy ...	3.1	3.5	3.8	3.8	2.2
Hongkong ...	3.1	1.1	0.8	0.6	0.3
Straits Settlements ...	2.7	2.7	2.3	1.9	2.3
China ...	2.3	2.6	3.0	1.9	1.1
Central and South America	2.2	2.8	2.2	2.6	2.0
Netherlands ...	1.7	3.0	2.7	1.9	2.3
Australia ...	1.6	2.9	2.0	1.9	1.8
Kenya and Zanzibar ...	1.0	0.5	0.5	0.6	0.4
Union of Socialist Soviet Republics ...	0.9	0.3	0.1	...	0.2
Spain ...	0.8	1.0	0.9	0.6	1.1
Java ...	0.8	0.5	0.3	...	0.3

These two tables reveal the stronger position of India both in export and import trade with the U. K. and the Empire and its weaker position in Europe. While our imports from the U. K. declined from 64.1 per cent. in 1913-14 to 38.8 per cent. in 1935-36, our exports increased from 23.4 per cent. in 1913-14 to 31.5 per cent. in 1935-36. We shall show the position of trade with the British Empire in a separate table. From the above tables we find that exports to the European countries have greatly declined. Our exports to Germany decreased from 10.6 per cent. before the war to 5.9 per cent. in 1935-36, to France from 7.1 per cent. to 4.4 per cent., to Belgium from 4.8 per cent. to 3.4 per cent. during the same period. The following table shows our imports and exports to countries other than the British Empire and the next table shows our trade with the British Empire.

IMPORTS.

Countries	1913-14	1933-34	1934-35	1935-36
European Countries	Rs. (lakhs)	Rs. (lakhs)	Rs. (lakhs)	Rs. (lakhs)
Union of Socialist Soviet Republics ...	6	1.64	1.57	1.61
Sweden ...	52	1.02	99	1.14
Norway ...	23	61	50	58
Denmark ...	4	17	14	32
Germany ...	12.67	8.89	10.11	12.35
Netherlands ...	1.55	1.82	1.30	1.34
Belgium ...	4.26	2.66	2.16	2.44
France ...	2.69	1.51	1.53	1.29
Spain ...	19	21	24	22
Switzerland ...	69	1.02	1.34	1.47
Italy ...	2.20	2.91	3.02	2.00
Austria ...	4.29	52	53	43
Hungary ...		11	8	24
Czechoslovakia ...	...	80	88	68
Other countries ...	69	1.26	92	84
Total : European countries	30.08	25.15	25.31	26.95
Other Foreign Countries				
Arabia ...	57	28	28	28
Iraq ...	...	39	52	50
Iran ...	71	1.45	2.09	2.35
Java ...	10.75	2.39	1.91	1.74
Borneo (Dutch) ...	90	32	30	31
Siam ...	28	45	1.94	81
French Indo-China ...	...	19	67	66
China ...	1.71	2.23	2.07	1.85
Japan ...	4.78	16.36	20.80	21.84
Egypt ...	30	68	1.67	1.53
Portuguese East Africa	15	32	27	45
United States of America	4.79	7.18	8.41	8.94
Other Countries ...	16	26	70	66
Total : Other Foreign Countries	25.10	32.50	41.63	41.92

EXPORTS.

	1913-14	1933-34	1934-35	1935-36
European Countries—	Rs. (lakhs)	Rs. (lakhs)	Rs. (lakhs)	Rs. (lakhs)
Union of Socialist Soviet Republics ...	2.47	8	8	35
Sweden ...	42	34	38	41
Norway ...	5	38	36	40
Poland ...	...	41	58	82
Germany ...	26.42	9.92	7.25	9.59
Netherlands ...	4.42	4.24	3.35	3.73
Belgium ...	12.10	4.51	4.41	5.54
France ...	17.72	7.43	5.36	7.20
Spain ...	2.23	1.41	1.39	1.78
Italy ...	7.89	5.83	5.87	3.54
Austria ...	10.01	...	1	4
Hungary ...		...	2	3
Greece ...	9	47	51	48
Turkey, European ...	11	20	16	10
Turkey. Asiatic ...	2.94	18	17	8
Other Countries ...	64	42	74	86
Total : European Countries...	87.51	35.82	30.66	34.95
Other Foreign Countries—				
Egypt ...	2.27	1.21	1.28	1.28
Arabia ...	1.69	96	98	1.01
Iraq ...	...	66	57	59
Iran ...	1.41	85	48	57
Java ...	1.95	47	50	47
Siam ...	95	93	1.15	92
China ...	5.71	4.54	2.64	1.88
Japan ...	22.69	13.63	24.81	22.07
Portuguese East Africa ...	62	72	79	84
United States of America ...	21.85	14.41	13.14	16.55
Cuba ...	56	67	66	78
Argentina ...	3.14	2.28	2.74	2.07
Chile ...	1.06	28	25	37
Other Countries ...	3.08	3.47	3.54	3.71
Total : Other Foreign Countries	66.98	44.98	53.53	53.11

These tables reveal that since the War, we have lost a good deal of our export trade with most of these countries. Now we shall take the British Empire and shall study the import and export trade statistics to see how we stand.

IMPORTS FROM THE BRITISH EMPIRE

Countries	1913-14 Rs. (lakhs)	1932-33 Rs. (lakhs)	1933-34 Rs. (lakhs)	1934-35 Rs. (lakhs)	1935-36 Rs. (lakhs)
United Kingdom ...	1,17,58	48.80	47.59	53.73	52.19
Ceylon ...	81	1.76	1.29	1.29	1.49
Straits Settlements ...	3.42	2.79	2.68	3.11	3.66
Hong Kong ...	98	52	45	39	42
South Africa ...	23	19	26	25	31
Mauritius ...	2.53	...	...	...	...
Kenya Colony, Zanzibar and Pemba ...	39	2.22	2.48	3.20	3.50
Canada ...	1	34	69	92	94
Australia ...	92	1.07	1.02	97	1.19
New Zeland ...	...	3	2	3	4
Other countries ...	1.20	1.66	1.23	1.46	1.77
Total British Empire ...	1,28,07	59.38	57.71	65.35	65.51

EXPORTS TO THE BRITISH EMPIRE.

	1913-14 Rs. (lakhs)	1932-33 Rs. (lakhs)	1933-34 Rs. (lakhs)	1934-35 Rs. (lakhs)	1935-36 Rs. (lakhs)
United Kingdom ...	58.35	37.81	48.06	48.98	51.80
Aden and Dependencies ...	1.40	67	73	75	53
Ceylon ...	9.04	6.82	6.24	6.84	7.46
Straits Settlements ...	6.79	3.64	3.34	3.31	3.77
Federated Malaya States...	22	57	51	56	76
Hong Kong ...	7.82	1.47	1.12	60	53
South Africa ...	1.20	1.26	1.22	1.44	1.58
Mauritius ...	1.26	75	68	87	89
Kenya Colony, Zanzibar and Pemba ...	1.02	73	69	66	69
Canada ...	1.43	1.63	1.88	1.72	1.72
Australia ...	4.10	3.90	2.98	2.72	2.87
New Zeland ...	56	39	53	50	40
Other Countries ...	1.20	1.79	1.88	2.08	2.92
Total British Empire ...	94.39	62.43	69.86	71.03	76.22

The trend of these tables is quite clear. While exports since the depression have been declining to European countries, our exports to the British Empire have been increasing.

The Possibilities of Increasing our Export Trade

It has been repeatedly suggested that we should try to increase our trade with European countries by entering into bi-lateral trade agreements with them. Enough data has been presented in the previous chapters to show the restrictionistic policy which almost all European countries are following and the intense desire for autarky is compelling them to import as little as possible. Under the circumstances there seems little hope of increasing our trade with most European countries under the existing circumstances. To think that we can increase our export trade by means of bi-lateral trade agreements is due perhaps to misunderstanding of the exact nature of the bi-lateral trade agreements. Only those nations can benefit by bi-lateral trade agreements which have an unfavourable balance of trade with the controlling country. In our case we find that with almost all European countries we have a favourable balance of trade. Our export trade has suffered not so much from the restrictionistic policy of individual countries but from the cumulative effect of all these countries and policies combined together. The countries that have been hit very hard by the depression have tried to protect their currencies and safeguard their balance of payment by imposing increasing restrictions on imports. Only those imports have been permitted which were considered absolutely necessary. And in allowing these imports, preference has been given to those countries on which they had some claims. For instance, Germany gave increasing preference to South American countries to import necessary products because it had already exported a good deal of manufactured products to these countries, the balance of which was not available to German exporters owing to the regulation of exchanges in South American countries. In order to repatriate those funds Germany allowed South American imports, although it had to pay more for them. But it was not a question of paying more. It was a question of getting or not getting at all. Germany could not import these things from other countries because she had no

funds to pay for these imports. For making such payments clearing agreements have been devised. It is a situation like this which affects India seriously.

For a country like India which has a favourable balance of trade, to enter into clearing agreements is positively harmful. In this connection the following remarks of the League of Nations may be read with interest. "To have a good clearing system you must have a bad balance of trade."[1] India has more to gain by the improvement of the general economic conditions of the world and by following the traditional policy of most favoured nation clause, rather than by entering into bilateral pacts with individual countries. The truth of this argument can be corroborated from the foregoing tables. We find that with the upward trend of world recovery our balance of trade has been improving, and it is on this recovery rather than in anything else that the future welfare and the trade prosperity of India depends.

Closer Relations with the Empire

The statistical data which we have presented in the previous pages shows that we are losing a good deal of foot-hold in trade with Europe, while our trade with Empire countries is developing. A person would be more than an optimist who would pin much hope in increasing our trade relations with Europe. The European situation, as far as international trade is concerned, is far from satisfactory. We are not the only country which has been losing her trade with Europe. Europe has failed to share in the recovery of the world trade, which has been under since 1932. In 1935 the gold value of the world trade with European countries declined by 2 per cent. whereas in every other continent it increased —by 2 per cent. in Asia, 5 per cent. in Latin America, 7 per cent. in Africa, 9 per cent. in Australia and New Zealand, and 12 per cent. in North America.[2]

Europe is living under a constant shadow of war and no amount of logical appeal can help or persuade the

(1) Clearing Agreements. op. cit. page 35.
(2) For details see "World Economic Survey, 5th year, 1935-36 page 164.

leading European countries to give up their policy of bi-lateralism. The view put forth in India that we should enter into a bi-lateral trade agreement with European countries is not likely to succeed as these countries are more interested in selling things to other countries than in buying from them. Our export trade with Germany illustrates this. Without any trade agreement with India and in spite of the fact that German goods pay higher tariffs than British goods in India, Germany has been constantly increasing its exports to India during the last few years. The reason for this is not far to seek. In Germany the trade is mostly controlled by the state and the factor of cost does not enter in this matter. We have already pointed out in the fourth chapter that heavy subsidies are given to encourage German exporters to find outlets for German products in foreign countries in order to increase the balance of payments. If we enter into bi-lateral pacts with European countries we will have to face two situations. The first and the foremost is how are we to repatriate our funds if we continue to export more and more. No doubt the bi-lateral trade agreements will help us to increase our exports. This means we will have more claims on these countries. But most of these countries exercise rigid regulation over their exchanges and payments cannot be easily made to the exporting countries. They have devised a system of clearing agreements which has eventually led to barter trade and in that case we will have either to increase our imports from those countries or to curtail our exports. The second course is not feasible because we already have a favourable balance of trade. The only other alternative is that we should try to import more from them. It can be suggested that at present we import a good deal from the U. K. and that share can go to these European countries.

Leaving political considerations or any imperial sentiments aside, we must realise that if we buy less from the United Kingdom naturally we shall be able to sell less too, and in this restrictionist world it would be very

difficult for us to find markets for our products which will be displaced from the U. K. It would be folly of the first magnitude to lightly discard one of the biggest and the richest markets of the world to capture which all European countries are making desperate efforts. The U. K. is our chief customer and year by year its importance is increasing. During the year 1935-36, 31.5 per cent. of our exports went to the U. K. as compared with 23.4 per cent. in 1913-14. This itself is a very impressive figure as almost one third of our exports find their market in the U. K. But the U. K. market becomes quite indispensable to us when we see that some of our important exports find their main market in the U. K. and if that market is threatened our position will become very unenviable.

Percentage of our Important Exports to the United Kingdom

	1913-14	1934-35	1935-36
Tea	72.4	90,0	89.6
Jute (Raw) ..	38.0	21.5	21.6
Jute (manufactured).	6.3	7.5	8.8
Cotton (Raw) ..	3.5	9.8	13.4
Oil Seeds	22.2	32.9	24.9
Food Grains ..	26.7	8.6	5.2
Hides and Skins (Raw and Tanned) ..	25.9	65.0	61.7

The only hopeful solution for this country is to look to the British Empire for expansion of our trade. The British Empire contains one-fifth of the world's population and is the richest market in the world. We find today that it is the Empire countries that are our better customers and there is no reason why we should not try to develop these relations to our mutual advantage.

The Political Aspects of the Situation

It has been suggested that India would be rather reluctant to enter into any agreements with those dominions who discriminate against Indians. This is a sound attitude. No one will be more prepared than myself to

condemn the attitude of those dominions who treat us as aliens, and during my travels in Australia, New Zealand, Canada and South Africa I repeatedly emphasised this point to the Dominions. The trend of my argument was that India is an essential and integral part of the British Commonwealth and it is in the interest of the Dominions to exploit the Indian market. We in India have a population which we at present can ill afford to sustain. We need outlets for our men and the Dominions and Colonies need outlet for their products. Why not go in for mutual benefit? India would be a good customer of these countries and would buy their products provided they allowed Indian emigrants in their countries. If everyone of us has this in view and every possible effort is made to put forth this view, I am sure in the long run we are bound to succeed. The Dominions have begun to realise this. But the unfortunate part of it is that however we may condemn this policy of the Dominions, the type of emigrants that we have so far sent to these countries has done more harm to the name and credit of India than good. No doubt in the beginning they were poor and led a rather miserable life, but cases have come to the writer's notice where people in various Dominions earning £50 to 60 a week and owning properties worth thousands of pounds were still living like coolies. These are mostly illiterate and ignorant people and the example that they have set as to India's culture and ideals is very bad. In this connection it will be worth our while to explore the possibilities of selecting a better type of emigrant so that when they go out they should not be a scandal and disgrace to our country.

This is the right approach to the problem and the matter can be only solved through mutual discussion and agreement. It is rather unfortunate that hardly any Indian statesman or business man visits these countries and thereby neither the people of these countries nor our statesmen come into touch with one another. If mutual co-operation is to be achieved it must be by mutual contact. In the Indian Legislative Assembly it has been

suggested that we should not enter into any agreements with the British Dominions or Colonies as they have anti-Indian laws and some have gone even so far as to suggest that we should even start on an economic boycott. But very few people realise that the Dominions have nothing to lose but will gain by this folly of our politicians. The statistics given in the previous pages clearly show that with every Dominion we have a favourable balance of trade. We are importing less from the Dominions and exporting more, and if any party is likely to suffer from this boycott it is India and not the Dominions. The imports from the Dominions are complementary and not competitive and there are immense possibilities of developing and increasing the trade with the Dominion countries and in return persuading them to buy more from us.

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